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PARTICIPATION SALES ACT OF 1966

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HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 14544, and S. 3283

BILLS TO PROMOTE PRIVATE FINANCING OF CREDIT
NEEDS AND TO PROVIDE FOR AN EFFICIENT AND
ORDERLY METHOD OF LIQUIDATING FINANCIAL
ASSETS HELD BY FEDERAL CREDIT AGENCIES, AND
FOR OTHER PURPOSES

APRIL 26 AND 28, 1966

Printed for the use of the Committee on Banking and Currency



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WASHINGTON : 1966

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PARTICIPATION SALES ACT OF 1966

TUESDAY, APRIL 26, 1966

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 5302, New Senate Office Building, Senator A. Willis Robertson presiding.

Present: Senators Robertson, Sparkman, Douglas, Proxmire, Muskie, and Bennett.

The CHAIRMAN. The committee will please come to order.

I called a meeting of the full committee this morning to hear testimony concerning a bill relating to the sale of participation certificates secured by agency loans reported by the House Banking and Currency Committee. It is pending on the House side, and the House is expected to act on the bill one day this week.

We have passed a bill which would authorize the Small Business Administration to sell these participation certificates, S. 2499, but the Administration would like to have that enlarged to include at least four other agencies, and that is in the House bill.

So, at the request of the White House, I have called this more or less emergency meeting of our committee. The Appropriations Committee had previously scheduled a number of hearings for this morning, other committees have hearings scheduled, and it is just impossible for Members of the Senate to be in two places at once.

So we couldn't get a full attendance here because members of the committee who had bills up that were actually pending thought that they would have plenty of time to reach these hearings after the House had sent the bill over to us and we had further hearings on it.

We are pleased to have with us this morning the Under Secretary of the Treasury, Mr. Barr. In fact he is now the Acting Secretary, because I understand that the Secretary is in some foreign country at the present time.

We also have the Director of the Budget.

So, gentlemen, you may proceed, each one of you taking such time as you see fit, and then we may be asking you some questions.

(A copy of the bill, H.R. 14544, as reported, follows:)

Union Calendar No. 629

89TH CONGRESS
2D SESSION**H. R. 14544****[Report No. 1448]**

IN THE HOUSE OF REPRESENTATIVES**APRIL 20, 1966**

Mr. PATMAN introduced the following bill; which was referred to the Committee on Banking and Currency

APRIL 25, 1966

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That this Act may be cited as the "Participation Sales Act
4 of 1966".

5 SEC. 2. (a) Section 302(c) of the Federal National
6 Mortgage Association Charter Act is amended—

I

2

1 (1) by inserting "(1)" immediately following
2 "(c)";

3 (2) by inserting after "undertakings and activities"
4 a comma and "hereinafter in this subsection called
5 'trusts','";

6 (3) by striking out the words "offered to it by
7 the Housing and Home Finance Agency or its Admin-
8 istrator, or by such Agency's constituent units or
9 agencies or the heads thereof, or any first mortgages in
10 which the United States or any agency" in the first
11 sentence thereof and by inserting "and other types of
12 securities, including any instrument commonly known
13 as a security, hereinafter in this subsection called 'obliga-
14 tions,' in which the United States or any executive
15 department, agency,";

16 (4) by striking out the third sentence thereof and
17 substituting therefor the following: "Participations or
18 other instruments issued by the Association pursuant
19 to this subsection shall to the same extent as securities
20 which are direct obligations of or obligations guaranteed
21 as to principal or interest by the United States be
22 deemed to be exempt securities within the meaning of
23 laws administered by the Securities and Exchange Com-
24 mission."; and

25 (5) by striking out the fourth sentence thereof.

3

1 (b) Section 302 (c) of such Act is further amended by
2 adding the following:

3 “(2) ~~Notwithstanding any other provision of law,~~
4 *Subject to the limitations provided in paragraph (4) of this*
5 *subsection, the head of any executive department, agency,*
6 *or instrumentality of the United States, hereinafter in this*
7 *subsection called the “trustor”, is authorized to set aside a*
8 *part or all of any obligations held by him and subject them to*
9 *a trust or trusts and, incident thereto, may shall guarantee*
10 *to the trustee timely payment thereof. The trust instru-*
11 *ment may provide for the issuance and sale of beneficial in-*
12 *terests or participations, by the trustee, in such obligations or*
13 *in the right to receive interest and principal collections there-*
14 *from; and may provide for the substitution or withdrawal of*
15 *such obligations; or for the substitution of cash for obliga-*
16 *tions. The trust or trusts shall be exempt from all taxation.*
17 *The trust instrument may also contain other appropriate pro-*
18 *visions in keeping with the purposes of this subsection. Not-*
19 ~~*withstanding any other provision of law, the*~~ *The Association*
20 *may be named and may act as trustee of any such trusts and,*
21 *for the purposes thereof, the title to such obligations shall*
22 *be deemed to have passed to the Association in trust: Pro-*
23 ~~*vided, That the .*~~ *The trust instrument shall provide that*
24 *custody, control, and administration of the obligations shall*
25 *remain in the trustor subjecting the obligations to the trust,*

4

1 subject to transfer to the trustee in event of default or prob-
2 able default, as determined by the trustee, in the payment of
3 principal and interest of the beneficial interests or participa-
4 tions. Collections from obligations subject to the trust shall
5 be dealt with as provided in the instrument creating the trust.
6 The trust instrument shall provide that the trustee will
7 promptly pay to the trustor the full net proceeds of any sale
8 of beneficial interests or participations to the extent they are
9 based upon such obligations or collections. Such proceeds
10 shall be dealt with as otherwise provided by law for sales or
11 repayment of such obligations. The effect of both past and
12 future sales of any issue of beneficial interests or participa-
13 tions shall be the same, to the extent of the principal of such
14 issue, as the direct sale of the obligations subject to the trust.
15 Any trustor creating a trust or trusts hereunder is authorized
16 to purchase, through the facilities of the trustee, outstanding
17 beneficial interests or participations to the extent of the
18 amount of his responsibility to the trustee on beneficial in-
19 terests or participations outstanding, and to pay his proper
20 share of the costs and expenses incurred by the Federal Na-
21 tional Mortgage Association as trustee pursuant to the trust
22 instrument, and for these purposes may use any appropriated
23 funds or other amounts available to him for the general pur-
24 poses or programs to which the obligations subjected to the
25 trust are related.

1 “(3) If *When* any trustor ~~shall~~ *guarantee* ~~guarantees~~
2 to the trustee the timely payment of obligations he subjects
3 to a trust pursuant to this subsection, and it becomes neces-
4 sary for such trustor to meet his responsibilities under such
5 guaranty, he is authorized to fulfill such guaranty by using
6 any appropriated funds or other amounts available to him for
7 the general purposes or programs to which the obligations
8 subjected to the trust are related.

9 “(4) The Association, as trustee, is authorized to issue
10 and sell beneficial interests or participations under this sub-
11 section, notwithstanding that aggregate receipts from obli-
12 gations subject to the related trust are or may become insuf-
13 ficient in amount to provide for the payment by the trustee
14 ~~(on a timely basis out of current receipts or otherwise)~~ of
15 all interest or principal on such interests or participations
16 ~~(after provision for all costs and expenses incurred by the~~
17 ~~trustee, fairly prorated among trustors):~~ *Provided*, That no
18 such beneficial interests or participations shall be issued in
19 relation to any obligations unless the trustee determines there
20 is a reasonable probability there will not be an insufficiency
21 as aforesaid, or unless the amounts issued are within aggre-
22 gate principal amounts authorized in advance in appropria-
23 tion Acts, and it shall be in order to include provisions
24 authorizing such issuance in an appropriation Act. *When*

6

1 ever such an aggregate principal amount is so authorized,
2 there shall be established on the books of the Treasury as
3 indefinite appropriations such sums as may be necessary from
4 time to time to enable the trustor to pay the trustee such
5 insufficiency as the trustee may require on account of out-
6 standing beneficial interests or participations, and such trustor
7 shall make timely payments to the trustee from such appro-
8 priations, subject to and in accord with the trust instrument."

9 *"(4) Beneficial interests or participations shall not be*
10 *issued for the account of any trustor in an aggregate*
11 *principal amount greater than is authorized with respect*
12 *to such trustor in an appropriation Act. Any such author-*
13 *ization shall remain available until used.*

14 *"(5) The Association, as trustee, is authorized to issue*
15 *and sell beneficial interests or participations under this sub-*
16 *section, notwithstanding that there may be an insufficiency*
17 *in aggregate receipts from obligations subject to the related*
18 *trust to provide for the payment by the trustee (on a timely*
19 *basis out of current receipts or otherwise) of all interest or*
20 *principal on such interests or participations (after pro-*
21 *vision for all costs and expenses incurred by the trustee,*
22 *fairly prorated among trustors). Whenever the issuance of*
23 *an aggregate principal amount is authorized pursuant to par-*
24 *agraph (4) of this subsection, such an authorization in an*
25 *appropriation act shall establish on the books of the Treasury*

1 *as appropriations such sums as may be necessary from time*
2 *to time to enable the trustor to pay the trustee such insuffi-*
3 *ciency as the trustee may require on account of outstanding*
4 *beneficial interests or participations. Such trustor shall make*
5 *timely payments to the trustee from such appropriations,*
6 *subject to and in accord with the trust instrument."*

7 SEC. 3. (a) Section 305(c) of the Federal National
8 Mortgage Association Charter Act is amended by deleting
9 "by \$450,000,000 on July 1, 1966,".

10 (b) Section 401(d) of the Housing Act of 1950 is
11 amended by deleting "1968:" immediately preceding the
12 first proviso and by substituting therefor "1965, and 1967
13 and 1968:".

14 SEC. 4. (a) Section 303(c) of title III of the Higher
15 Education Facilities Act of 1963 is amended by striking out
16 the first nine words in the second sentence and substituting
17 therefor the following: "For the purpose of making pay-
18 ments into the fund established under section 305".

19 (b) Title III of the Higher Education Facilities Act of
20 1963 is further amended by adding after section 304 the fol-
21 lowing new section:

22 "REVOLVING LOAN FUND

23 "SEC. 305. (a) There is hereby created within the
24 Treasury a separate fund for higher education academic facili-
25 ties loans (hereafter in this section called "the fund") which

8

1 shall be available to the Commissioner without fiscal year
2 limitation as a revolving fund for the purposes of this title.
3 The total of any loans made from the fund in any fiscal year
4 shall not exceed limitations specified in appropriation Acts.

5 “(b) (1) The Commissioner is authorized to transfer to
6 the fund available appropriations provided under section
7 303 (c) to provide capital for the fund. All amounts re-
8 ceived by the Commissioner as interest payments or repay-
9 ments of principal on loans, and any other moneys, property,
10 or assets derived by him from his operations in connection
11 with this title, including any moneys derived directly or in-
12 directly from the sale of assets, or beneficial interests or par-
13 ticipations in assets, of the fund, shall be deposited in the
14 fund.

15 “(2) All loans, expenses, and payments pursuant to
16 operations of the Commissioner under this title shall be paid
17 from the fund, including (but not limited to) expenses and
18 payments of the Commissioner in connection with sale,
19 under section 302 (c) of the Federal National Mortgage
20 Association Charter Act, of participations in obligations ac-
21 quired under this title. From time to time, and at least at
22 the close of each fiscal year, the Commissioner shall pay
23 from the fund into the Treasury as miscellaneous receipts
24 interest on the cumulative amount of appropriations paid out
25 for loans under this title or available as capital to the fund,

9

1 less the average undisbursed cash balance in the fund during
2 the year. The rate of such interest shall be determined by
3 the Secretary of the Treasury, taking into consideration the
4 average market yield during the month preceding each fiscal
5 year on outstanding Treasury obligations of maturity com-
6 parable to the average maturity of loans made from the fund.
7 Interest payments may be deferred with the approval of the
8 Secretary of the Treasury, but any interest payments so
9 deferred shall themselves bear interest. If at any time the
10 Commissioner determines that moneys in the fund exceed
11 the present and any reasonably prospective future require-
12 ments of the fund, such excess may be transferred to the
13 general fund of the Treasury.”

14 SEC. 5. Section 338 (e) of the Consolidated Farmers
15 Home Administration Act of 1961 is amended by striking
16 in the second sentence “and (8)” and inserting in lieu
17 thereof “(8) section 8 of the Watershed Protection and
18 Flood Prevention Act, as amended (16 U.S.C. 1006a) ;
19 (9) section 32 (e) of the Bankhead-Jones Farm Tenant
20 Act, as amended (7 U.S.C. 1011) ; and (10)” ; and by
21 inserting in the fifth sentence after “title,” the following:
22 “section 8 of the Watershed Protection and Flood Prevention
23 Act, as amended, and section 32 (e) of the Bankhead-Jones
24 Farm Tenant Act, as amended.”

25 SEC. 6. Nothing in this Act shall be construed to repeal

10

1 or modify the provisions of section 1820 (e) of title 38,
2 United States Code, respecting the authority of the Admin-
3 istrator of Veterans' Affairs.

4 *SEC. 7. Paragraph (7) of section 8 of the Federal*
5 *Credit Union Act (12 U.S.C. 1757) is amended to read:*

6 *"(7) to invest its funds (A) in loans exclusively to*
7 *members; (B) in obligations of the United States of*
8 *America, or securities fully guaranteed as to principal*
9 *and interest thereby; (C) in accordance with rules and*
10 *regulations prescribed by the Director, in loans to other*
11 *credit unions in the total amount not exceeding 25 per*
12 *centum of its paid-in and unimpaired capital and sur-*
13 *plus; (D) in shares or accounts of savings and loan*
14 *associations, the accounts of which are insured by the*
15 *Federal Savings and Loan Insurance Corporation; (E)*
16 *in obligations issued by banks for cooperatives, Federal*
17 *land banks, Federal intermediate credit banks, Federal*
18 *home loan banks, the Federal Home Loan Bank Board,*
19 *or any corporation designated in section 101 of the*
20 *Government Corporation Control Act as a wholly owned*
21 *Government corporation; or in obligations, participations,*
22 *or other instruments of or issued by, or fully guaranteed*
23 *as to principal and interest by, the Federal National*
24 *Mortgage Association; or (F) in participation certifi-*
25 *cates evidencing beneficial interests in obligations, or in*

1 *the right to receive interest and principal collections there-*
2 *from, which obligations have been subjected by one or*
3 *more Government agencies to a trust or trusts for which*
4 *any executive department, agency, or instrumentality of*
5 *the United States (or the head thereof) has been named*
6 *to act as trustee;”*

7 *SEC. 8. The Secretary of the Treasury, in consultation*
8 *with heads of agencies of the United States carrying on*
9 *direct loan programs, shall conduct a study, in such manner*
10 *as he shall determine, on the feasibility, advantages, and*
11 *disadvantages of direct loan programs compared to guaran-*
12 *teed or insured loan programs and shall report his findings*
13 *together with specific legislative proposals to the Congress*
14 *not later than six months after the effective date of this Act.*
15 *There are authorized to be appropriated such sums as*
16 *necessary for the purpose of this section.*

STATEMENT OF JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY

Mr. BARR. Mr. Chairman and members of the committee, I am very glad to appear before you this morning to support prompt passage of the Participation Sales Act of 1966. This bill would provide an efficient and orderly method for liquidating financial assets held by Federal credit agencies and would help to promote private financing of Federal credit programs.

This legislation would extend a technique that has been carefully tested and has proved its value to the Nation. There is nothing essentially new or unusual in what we are proposing.

Under authority provided in 1964, the Federal National Mortgage Association, as trustee, has already sold \$1.6 billion of certificates of participation in pools of assets set aside by the Veterans' Administration, and by FNMA itself under its special assistance and management and liquidating functions.

The Participation Sales Act of 1966 would simply broaden and make available on a governmentwide basis this same authority for the sale of participations in pools of financial assets owned by Federal credit agencies.

Our objective is to limit and to reduce the Government's portfolio of direct loans by substituting private for public credit.

We cannot justify immobilizing the dollars of the taxpayer by holding larger and larger amounts of loans when the private credit markets can and want to participate with us in our credit programs.

In 1961, our loan portfolio stood at \$25.1 billion. By June 30, 1965, it had increased to \$33.1 billion.

The program of asset sales in which we have engaged during fiscal year 1966 and the program that is proposed in the President's Budget Message for fiscal year 1967, will reduce this total to \$31.5 billion on June 30, 1967.

Without the fiscal year 1966 action and the program proposed in the budget, the portfolio total would approach \$39 billion on June 30, 1967. This kind of growth in neither desirable nor necessary.

It is undesirable because it is the essential business of Government to help stimulate and encourage worthwhile credit programs, but not to be the final lender holding an ever-rising portfolio.

It is unnecessary because the Participation Sales Act of 1966 offers an attractive alternative in the form of substituting private for public credit.

The substitution of private for public credit has been a continuing objective of the Congress and successive administrations for more than a decade.

It is a recurring theme in President Eisenhower's budget messages in 1954, 1955, 1956, and 1958.

Encouraging the flow of private credit was strongly supported in the 1961 Report of the Commission on Money and Credit and in the 1964 Report of President Kennedy's Committee on Federal Credit Programs.

Expansion of the asset sales program was urged in 1963 in a minority report of the House Ways and Means Committee on H.R. 6009 on providing temporary increases in the public debt limit, from which I quote the following passages, which I think are most interesting:

The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets. * * *

For example, when the Secretary of the Treasury was before the committee on February 27, we suggested that it was incumbent upon the administration to show "good faith" before coming to the Congress for an additional increase in borrowing authority. We pointed out that the Government held about \$30 billion in loans, many of which were readily marketable. In fact, there was a very good market for many of these loans. Instead of increasing its offering of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in its borrowing authority.

By "its," I suppose they mean the Treasury's borrowing authority.

Our refusal to grant the administration's request last February produced "results." In the interim of less than 2 months the administration found that it could increase revenues from the sale of loans by an additional \$1 billion for fiscal 1963. Now, the administration estimates that it will realize \$2.082 billion—as contrasted with an original estimate of only \$0.929 billion less than 2 months ago.

Before I outline the procedures which would be followed under the bill, let me mention two amendments proposed by the House committee in which we concur.

First, the House committee proposed, and we agreed, that it would be desirable to amend the bill to provide that no sale of participation certificates on behalf of any agency could be undertaken without prior authorization in an appropriations act.

As originally drafted, the bill provided that prior authorization in an appropriations act for the sale of participation certificates would be required only if the assets pooled by the agency bore interest rates below the rate at which the participation certificates could be sold in the market.

It was our intention that the Appropriations Committees should consider any sale of participations where they would be need for appropriations to cover expenditures or interest deficiencies.

We were pleased to accede to this amendment—proposed by the minority side in the House committee—which will have the effect of strengthening congressional control over all of these credit programs.

Second, we agreed to a change which would require—rather than simply authorize—an agency to guarantee its pooled obligations to FNMA.

We believed that circumstances could arise, for example, in connection with insured FHA loans, in which a further guarantee to FNMA, as trustee, would not be necessary.

But we are glad to accept the amendment, since its intent is identical to our own, which is to protect FNMA, both in its trust and corporate character, and to place the first responsibility where it belongs—on the lending agency, and ultimately on an appropriation act of the Congress of the United States.

I would like to sketch for you the procedure which would be followed under this bill:

When authorized in appropriation acts, each lending agency could enter into a trust agreement with FNMA, under which it would set aside on its books certain of its loans and subject them to a trust. It would be required, for purposes of the trust, to guarantee the loans, including timely payment of principal and interest. The bill would permit the substitution of other loans in the event of default or likely default on any of the loans subjected to the trust agreement. In fulfilling its guarantee, the lending agency would be authorized to use any appropriated funds or other funds available for the general purposes of programs related to the entrusted obligations.

FNMA would then—up to the maximum amounts authorized for each agency—issue and sell participations based on the pooled obligations and on the right to receive principal and interest collections from those obligations. FNMA would also, in its corporate capacity, guarantee all payments due on the participation certificates sold. For the purpose of making timely debt service payments, FNMA would be authorized to borrow from the Treasury under the procedures provided in subsection (d) of section 306 of the Federal National Mortgage Association Charter Act.

Because of the right of substitution and the lending agency's guarantee, which in turn runs to an appropriations act of the Congress, it is not anticipated that either the FNMA guarantee or the Treasury borrowing authority would have to be used. These additional safeguards, however, would help to assure the most favorable market reception for the participation certificates and minimize the interest rates at which they could be sold.

Proceeds of the participation certificates sold would be paid over to the lending agency. They would become available for new loans only to the extent that repayments of the underlying obligations can be used for new loans under existing law and under present congressional controls.

I would like to emphasize that point. These payments can be used only for new loans under existing law and congressional controls.

If the loans pooled by the lending agency, pursuant to an authorization in an appropriation act, included obligations bearing submarket interest rates, an appropriation act would be authorized to enable the lending agency to pay FNMA the amount of any deficiency in the interest earned on the pooled obligations. The amount would be the difference between the interest paid by the borrowers and the interest payable on the participation certificates. If this payment was not made in timely fashion, FNMA, as part of its guarantee of timely payment on the participation certificates, would itself pay the amount of the deficiency—and would then be reimbursed by the agency with interest, when funds became available.

While title to the pooled loans would pass to FNMA in trust, the lending agency would maintain custody and service of the loans. Again let me stress a point: the lending agency would maintain complete administrative control over its programs.

Borrower payments on the pooled loans would be paid to the lending agency. The agency would turn the payments over to FNMA, to be applied toward payments becoming due on the participation certificates. Any collections in excess of the amounts needed for payments on the participation certificates would be returned to the lending agency, after deduction of FNMA's costs. Any additional expenses would be paid by the lending agency, using either appropriated funds or other amounts available for purposes of programs related to the entrusted obligations. An additional benefit of this proposal is that the sale of participation certificates through FNMA would assure the essential coordination of asset sales by different agencies. It would not make sense for agencies to market their assets in a way that interfered with similar efforts on the part of sister agencies. All would be marketing an essentially similar product—an obligation backed by the Federal Government.

Coordinated offerings through FNMA would mean that market offerings could be timed and adapted in other respects to minimize interest costs, maximize marketability, and, in general, gain the greatest benefit from this technique for drawing private investment funds into Federal credit programs.

The bill would also assure the most effective coordination of participation sales operations with the Treasury's debt management operations. The Treasury has long-established and excellent working rela-

tions with FNMA in coordinating market operations with overall debt management policy.

While similar arrangements have been and could be established with other agencies, the coordinating job grows in complexity as more agencies and larger sales are involved. Centralizing sales will avoid unnecessary staffing and other administrative costs.

Scheduling a large number of separate agency issues to avoid market congestion and to minimize the cost to the Government is both intricate and unnecessary.

Difficulties in timing and coordination are compounded during periods of rapidly changing market conditions, leading to possible disruptions of needed credit programs.

The participation sales technique—as compared with the outright sale of Federal loans—provides significant additional marketing flexibility. It thus assures that Federal agency assets will be more readily saleable and at lower interest rates.

The participation technique converts obligations of relatively narrow market acceptability into obligations of broad marketability which are attractive to a wide variety of purchasers: banks, insurance companies, pension funds, and other institutional investors.

For example, if the Government were to sell directly the home mortgages which it now holds, most of these mortgages would be bought by institutions (such as savings and loans and mutual savings banks) which normally supply a large part of the credit needs of the home mortgage market. The result would be to put this particular sector of the credit market under increased pressure.

However, if these mortgages are marketed via the participation route, the purchasers would include the whole spectrum of investors, including those which normally do not invest in home mortgages such as corporations, personal trusts, and State and local government pension funds.

Thus the sale of home mortgages in a pool of assets (as contrasted with the direct sale of mortgages) would tend to ease, rather than increase, pressures on the home mortgage market.

Since the FNMA participation instruments have already gained broad acceptance in the market, the Government should capitalize on this proven experience and avoid the startup costs that other agencies encounter if they approached the market individually.

This bill is a recognition of and response to the growing size and complexity of Federal credit program financing operations and the need for coordinating these operations with the overall financial activities of the Federal Government.

I fully endorse this legislation and urge its prompt enactment.

Mr. Chairman, this concludes my formal statement. Since this statement was printed there has been called to my attention another technical amendment which I would like to call to the committee's attention.

In the hearings before the House committee, Director Schultze and I, after deliberation with our colleagues, accepted an amendment proposed by Congressman Widnall which would place all sales of these direct loans, whether or not they are at submarket or at market rates, under the authority of the Appropriations Committees.

We were glad to accept this amendment, as I mentioned in my statement, because it followed the intent that we are trying to follow here, to place these programs under careful and close congressional scrutiny.

However, we have been informed that FNMA has an offering plan roughly as follows: about \$350 million on SBA loans and perhaps \$200 million in FAA and VA mortgages.

By accepting this amendment we have probably knocked out the \$200 million sale of FHA and VA mortgages. Therefore, we are proposing that this legislation not require Appropriation Committee action for these sales during fiscal 1966.

Acceptance of this technical amendment would enable the proposed sale, which is legal under existing law, to go forward as we had planned, but it does not lessen the urgency for prompt action on this bill.

If we are to proceed with the program to sell \$4.7 billion in assets next year, as the President has envisaged, it will be necessary, if this legislation is enacted, to go back to the Appropriations Committees and get their approval for the whole program. If this legislation is enacted promptly, we would move directly into the appropriation process and hopefully get the approval of the Appropriations Committee by July 1, so that the \$4.7 billion sale could be stretched over the entire 12 months of fiscal year 1967.

I would respectfully urge that you consider this technical amendment which we offer as a result of the acceptance of Congressman Widnall's amendment. However, I hope you will also consider the need for prompt action on the legislation before you.

Thank you.

(The proposed amendment and explanatory comments on the bill follow:)

SEC. 9. The Federal National Mortgage Association is authorized during fiscal year 1966 to sell (1) additional participations in the Government Mortgage Liquidation Trust, and (2) participations in a trust to be established by the Small Business Administration, each without regard to the provisions of paragraph (4) of section 302(c) of the Federal National Mortgage Association Charter Act, as added by this Act.

HOW THE PARTICIPATION SALES ACT WOULD WORK

The following two examples illustrate the procedures that would be followed in implementing the provisions of the Participation Sales Act of 1966. Example No. 1, covering SBA loans, outlines the procedures in the case of programs in which loans are made at market rates. Example No. 2, covering CFA college housing loans, sketches the procedures that would be followed in the case of a program with submarket rates.

EXAMPLE 1. SMALL BUSINESS ADMINISTRATION

The Small Business Administration, after receiving an authorization in an appropriations act, would enter into a trust agreement with FNMA under which SBA would set aside on its books certain of its business loans. These loans would be in such amounts and have such interest rates and maturities as to assure principal and interest collections sufficient to meet the payments due on the participation certificates.

These loans would be subjected to a trust and would be guaranteed by SBA. To fulfill its guarantee, SBA would be authorized to use any appropriated funds or other funds available to it for the direct loan program. Following past practices, SBA could also be expected to set aside a reserve equal to 10 percent of the principal amount of the loans subject to trust.

In addition, SBA would agree to substitute good loans in the event of default or likely default on any of the loans subjected to the trust agreement.

FNMA, as trustee, would issue and sell participations based on the pooled obligations and on the right to receive principal and interest collections from those obligations. FNMA, in its corporate capacity, would also guarantee timely payment of principal and interest due on the participation certificates. For this purpose FNMA, if necessary, would be able to borrow from Treasury any amounts needed under the procedures provided in subsection (d) of section 306 of the FNMA Charter Act.

Proceeds of the participations sold, after deduction of the costs of the transaction, would be paid over to SBA. They would become available for new loans only within the overall loan authorization provided by the Congress.

As Mr. Ross Davis, Acting Director of SBA, has testified, SBA would continue to count against its authorization to have loans outstanding the principal amount of all loans placed in trust. Consequently, SBA would not be enabled to increase its loans outstanding beyond the level authorized by the Congress and provided for in appropriations acts.

While title to the pooled SBA loans would pass to FNMA in trust, SBA would continue to maintain custody and service of the loans. Consequently, SBA would maintain complete administrative control over its programs.

In accordance with the trust agreement, SBA would pay over to FNMA periodically repayments of principal and interest on the pooled loans. Any collection receipts in excess of the amounts needed to assure the payments on the participation certificates would be returned to SBA after deduction of FNMA's costs, and any additional expenses would be paid by SBA from appropriated funds or other amounts available.

EXAMPLE 2. COLLEGE HOUSING LOANS, COMMUNITY FACILITIES ADMINISTRATION

The Community Facilities Administration of the Department of Housing and Urban Development would also in the normal appropriations process, request congressional approval to sell a certain amount of participations in the CFA loan portfolio. The Appropriations Committees would again be free to approve or reject the request or to change the amount, thus maintaining strict control over the amount of funds which would be made available to CFA for new college housing loans.

If the sale of \$820 million of participation certificates, the amount proposed for fiscal 1967, was approved by the Congress in an appropriation act, it is anticipated that the same act would establish on the books of the Treasury an indefinite appropriation which would enable CFA to pay FNMA the interest insufficiency arising from the difference between the rates of interest on loans and on participation certificates. The Congress would be provided with estimates of the amount of anticipated expenditures under this appropriation, which would be indefinite only to the extent that estimates would be required of the market rates of interest at which the participation certificates could be sold.

This indefinite appropriation would cover the payments throughout the life of the participation certificates sold under the authorization. It would not run to additional issues of participation certificates for which new authorizations would be required.

The Community Facilities Administration would then enter into a trust agreement with FNMA, under which CFA would set aside on its books certain of its loans, all of which presently bear interest rates significantly below current market rates of interest.

As in the SBA example, CFA would subject these loans to a trust, guarantee the loans, and undertake to substitute good loans for loans which default or were likely to default.

Similarly, FNMA would, as trustee, issue the participations and, in its corporate capacity, guarantee the timely payment of principal and interest on the participation certificates, again with the support of its borrowing authority from Treasury.

Proceeds of the participation certificates sold would be paid over to CFA and become available for new college housing loans.

As in the SBA case, CFA would maintain custody and service of the loans and exercise full administrative control over its program.

Since the pooled loans would bear interest below the rate at which the participation certificates could be sold in the market, from time to time CFA would

draw on the indefinite appropriation provided when the participation sale was authorized in order to make payments to FNMA for the amount of the interest insufficiency.

The CHAIRMAN. Thank you, Mr. Secretary.

Now I think we should hear from the Director of the Bureau of the Budget, and then we may ask questions of either or both.

STATEMENT OF CHARLES L. SCHULTZE, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. SCHULTZE. Thank you, Mr. Chairman and members of the committee.

I would like to discuss briefly today the background and some of the major features of the proposed "Participation Sales Act of 1966." This legislation was transmitted last week to the Congress by the President to provide the authority needed to carry out his earlier recommendations for a more extensive and effective substitution of private for public credit.

BACKGROUND

As the members of this committee are well aware, both the Congress, in authorizing—and successive administrations in administering—specific credit programs have, as a basic policy, relied primarily on the use of private credit institutions rather than direct Federal loans wherever such reliance could be expected to produce the desired results.

Historically, the major role of the Federal Government in the area of credit assistance has been to encourage a smooth, efficient flow of funds between private borrowers and lenders. This has been done in two major ways:

By chartering, regulating, and insuring the deposits in financial institutions—banks and savings and loan associations—which pool the savings of many savers and from these funds provide credit to borrowers.

By guaranteeing specific loans to facilitate the flow of credit to borrowers where risks are otherwise unattractive to private lenders.

At present, almost \$100 billion in Government-guaranteed or insured private loans are outstanding under programs long approved by the Congress, and each year the total steadily increases.

Despite such assistance there remain some types of borrowers who are not able to establish credit standing, who are remote from credit sources, or who, in the judgment of the Congress, require interest rates lower than can be obtained from private lenders even with a Federal guarantee. In such cases, the Federal Government makes direct loans. In meeting these special requirements, the Federal Government has over the years, built up a large portfolio of direct loans. The basic purpose of the Federal Government in such programs, however, is not to build up a portfolio of financial assets, but to assume some or all of the risks involved in order to make loan funds available to borrowers who need it.

The legislation now before this committee provides an effective means by which the Federal Government can continue its historic role of assuming part or all of the loan risk, while at the same time avoiding an unnecessary increase in Government-owned loan portfolios.

The Government, after all, is fulfilling the same basic role, whether it—

Makes direct loans, pools the loans, and sells participations to private lenders, as under the proposed legislation.

Insures a Federal Housing Administration loan made by a mortgage banker, who then sells it to a private investor.

Insures a ship mortgage under the Merchant Marine Act of 1936.

Insures deposits in savings and loan institutions, assuming some of the credit risk, and thereby facilitating the flow of credit from savers to home buyers.

Although the techniques differ in each case, the underlying principle of risk assumption is the same.

As one way of attracting private capital to public loan programs while minimizing the buildup in federally owned portfolios, lending agencies have found it possible from time to time to encourage private refinancing of such loans on an individual basis. Direct sales of individual assets have been the normal practice for the past decade or more by several major Federal lending programs. But there are limits to the volume of such loans that can be efficiently marketed in this way. Many loans are too small and too expensive to administer to be readily marketable. If the private lender has to select the assets on a retail basis and undertake their administration, he will often be unwilling to purchase them.

The process of pooling a number of such loans and selling participations in the pool serviced by the original lending agency, however, converts a loan instrument of very narrow acceptability into one with very wide attraction. In the relatively brief period since 1962 when the Export-Import Bank initiated its program and since 1964 when FNMA was authorized to sell participations in its own and VA assets, more than \$3.3 billion in such certificates have been successfully sold. And as the volume of participations in the market increases, the efficiency of the market grows too.

As compared with direct sales of Government loans, the participation technique enables more loans to be sold in total, and reduces the net cost of selling the loans, whether measured in terms of administrative and selling costs or in terms of the yields which have to be paid on the assets to make them salable.

Let me discuss briefly the last topic mentioned above, the yields necessary to sell participation certificates in the private market. On the one hand, as I have pointed out, this is the most inexpensive means of attracting private credit into these programs. On the other hand, it is true that the interest rate on participations is slightly higher than the rate on Treasury bonds. Experience in the past has indicated a premium of 25 to 35 basis points ($\frac{1}{4}$ to $\frac{3}{8}$ percent) and this premium should decline as a larger volume of participations are issued and a broader secondary market develops. Indeed on a "yield-after-tax" basis—which is a relevant way of comparing yields from the Treasury's standpoint—the yields on participations are only slightly greater than yields on Treasury securities. In recent weeks the after-tax yield differential has averaged only some 10 to 15 basis points.

Of course, Treasury borrowing is cheaper than any other form of financing. But this is hardly a reason to abandon the historic Federal role of assisting the flow of private credit to borrowers. Should we borrow through the Treasury and add to the public debt as a replacement for FHA and VA mortgages, or guaranteed small business loans? I do not believe that any administration or any Congress has ever operated on the premise that the U.S. Treasury should replace available private credit simply because the Treasury can borrow more cheaply than anyone else.

MAJOR FEATURES OF THE BILL

Let me turn, if I may, to several major features of the bill before the committee.

1. The proposed bill will make available on a Governmentwide basis the authority to pool financial assets and to sell through FNMA as trustee certificates of participations in such assets.

Under present law the FNMA as trustee can sell certificates of participation in any type of loans owned by the Department of Housing and Urban Development as well as first mortgage loans owned by other agencies. The language of the bill would permit any Federal department or agency with direct lending authority to place any of its loans in a pool and would authorize FNMA as trustee to sell certificates of participation in pools of such assets.

The President in his 1967 budget has explicitly proposed that this new authority be used by the following credit programs not now engaged in participation sales:

Department of Agriculture: Farmers Home Administration;

Department of Health, Education, and Welfare, Office of Education: Academic facility loans;

Department of Housing and Urban Development: College housing loans and public facility loans; and

Various loans of the Small Business Administration.

To facilitate sales by the Office of Education and the Farmers Home Administration, the legislation contains necessary modifications in existing laws governing the programs.

2. To facilitate sales of participations in pools of loans bearing interest rates below market levels, the proposed bill provides for supplemental payments adequate to cover any insufficiency of receipts from assets in the pool as necessary to meet the payments on the certificates. This provision is highly important because under present laws governing many direct loan programs in large share of the loans have been made at interest rates significantly below the levels prevailing in the private market, as well as below the cost of the Treasury of obtaining the funds. These supplementary payments, in and of themselves, do not add to Federal outlays, but merely recognize explicitly the present cost now incurred by the Federal Government in such loan programs, which are not specifically identified in the budget.

3. The bill proposed by the President provides for effective review and control in appropriation legislation of the sale through participation pools of any assets requiring such supplemental payments. It does this by requiring that the amounts of any such certificates issued

shall be within aggregate principal amounts authorized in advance in appropriation acts. If and when appropriation language is enacted specifically authorizing such certificates the appropriation authorization automatically makes funds available to cover the interest differential. The House committee is amending legislation submitted by the administration to provide that all participation sales covered by the bill would be subject to authorization in appropriation acts, whether or not funds are required to cover an interest differential. The administration concurs in that amendment. We believe it is a desirable change.

4. Finally, as Under Secretary Barr has already emphasized, under the proposed bill all future sales of participations by these agencies would be carried out under the experienced management of the Federal National Mortgage Association, assuring effective coordination of the various credit programs, as well as with Treasury debt management operations themselves.

SIZE OF PROGRAM

As outlined in this year's budget, the President's program for 1967 relies upon a considerable expansion in the sale of financial assets. Of the total 1967 sales estimate of \$4.7 billion, \$4.2 billion represents the sale of certificates of participation, and \$2,850 million of this requires the provision of new legislative authority.

In the absence of an offsetting sales program, the total loan portfolio of the Federal Government, now in excess of \$33 billion, will continue to grow year by year as it has over the past two decades. We believe there is no need for this portfolio growth. The Government can meet its program requirements without accumulating a large volume of loans and mortgages.

SUMMARY

The authority contained in this bill provides a most efficient method of allowing the Government to play its historic role in assisting credit through risk assumption without building up an unnecessarily huge portfolio of loans.

Our expanding economy will require increased capital outlays for many years to come in order to finance such important programs as education, health, transportation, and public facilities. Private financing, if obtainable, is clearly preferable and should, to the maximum extent possible, be utilized to meet these urgent needs.

The Federal Government can and should provide the necessary services such as smoothing the imperfections in the private credit system, in order to maximize the participation of the private financial sector. As I indicated earlier, this is a historical role for the Federal Government in the credit markets of our Nation. We need not and should not hold loans which the private sector can handle. Or, to put this another way, the purpose of the Federal loan programs is to assist the borrower to obtain funds on a reasonable basis, not to build up a large portfolio of federally owned loans.

For all of these reasons, I urge early enactment of this legislation. Thank you.

The CHAIRMAN. The Chair feels that this proposal, not only in volume but in procedure, is a big difference from the bill that has

passed with respect to small business. We did increase the lending power of small business in our bill. We raised it to \$2 billion, but we still put a limit on what it could lend. It would make its own loans and Congress, of course, would keep control or a measure of control by the Appropriations Committee appropriating the difference between what those business loans would pay in interest and what the Government would pay.

But that isn't a circumstance, let us say, to issue participating certificates against housing loans made at 3-percent interest. In the law we passed last year for college dormitories, classrooms, we authorized \$300 million of 3-percent money. Within 3 months we had over a billion dollars of requests. If the Small Business Administration refinances its paper, it does it for loans by the Small Business Administration, but I understand if FNMA takes the whole pool, they can take all of this paper that is now held by small business, which is close to a billion dollars, and refinance the whole thing.

They can take all of these other four agencies and I understand that if they should finance the total, it would be in the magnitude of \$7 or \$8 billion if they should use it all, and it would not then be limited to the loans to be made by the agency that had held the paper. Money would go into the Treasury for such use as the Treasury might see fit to make of it.

I had a letter from the executive vice president of the American Bankers Association, Charles E. Walker. He said at this time they didn't want to take a positive position either for or against the policy of this bill but he said he wanted to call attention to two possible objections to it.

I will ask permission that the letter may be printed in the record at this point and then I will quote from two paragraphs.

(The letter referred to follows:)

THE AMERICAN BANKERS ASSOCIATION,
New York, N.Y., April 26, 1966.

HON. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR SENATOR ROBERTSON: The American Bankers Association desires to take this opportunity to express its views on H.R. 14544, a bill to promote private financing of credit needs and to provide for an effective and orderly method of liquidating financial assets held by Federal credit agencies and for other purposes, which we understand will shortly be under consideration by your committee.

Inasmuch as H.R. 14544 has been introduced to carry out a definitive policy decision of the administration, we are not expressing any comments on such policy decision. Nevertheless, we are concerned about certain aspects of the legislation as outlined below.

H.R. 14544 provides a mechanism for financing the Treasury through the issuance of securities by the Federal National Mortgage Association representing beneficial interests or participations in certain loans made by various agencies of the Government. The Government agencies responsible for administering the loan programs which will be utilized as a basis for the issuance of participation securities will retain custody, control, and administration of the obligations securing the participation certificates. FNMA will promptly pay to the agencies whose obligations form the basis for the issuance of participations the full net proceeds of any sale of such beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds will be dealt with as otherwise provided by law for sales or repayment

of such obligations. In most cases, this will make the proceeds available for new loans to the extent authorized under existing programs.

In my letter to you of February 28, 1966, with reference to S. 2499, a bill to amend the Small Business Act to authorize issuance and sale of participation interests based on certain pools of loans held by the Small Business Administration, we expressed our concern about certain implications of that bill which we believe also applies to H.R. 14544. We desire to restate such comments, in part, as follows:

(1) The type of transactions envisaged seem to us to be simply another type of deficit financing, rather than a genuine substitution of private for public credit, but at interest rates higher than is effected in the usual manner through sales of Treasury obligations. Although no serious objection could be made to this alternative type of financing of itself, the higher interest cost that is likely to be incurred should be of concern to both taxpayers and the Congress.

(2) Debt operations of the type authorized in H.R. 14544 bypass the public debt ceiling and the interest rate ceiling on new issues of Treasury securities with maturities beyond 5 years. Our purpose here is not to defend the arbitrary manner in which these limitations can impinge on budget spending and Treasury debt management. But we do believe strongly that the issue of our relaxation or elimination of these limitations should be confronted directly in the Congress and not bypassed through alternative methods of financing.

In addition, we are concerned with the impact of the implementation of the program contemplated under H.R. 14544 and the demands it will place on the money and capital markets at a time when private demands for funds are active and strong. From the standpoint of timing, such a program could be better implemented at a time when the banking system and long-term investors are actively seeking earning assets because of a limited availability of such in the private sector. The proposed Government agency financing may very well have a considerable rate impact in the market. So long as economic conditions continue expansive and private demands for funds are heavy, the agency financing will exert upward pressure on interest rates. This pressure could be felt in the market for direct Treasury obligations and rate adjustments could take place in that sector. The sheer magnitude of the administration's program—\$3.3 billion in this fiscal year and \$4.7 billion next year—raises the question as to whether all of the Government agency funds can be raised in this time interval.

The Government agencies that have been regular borrowers in the market for many years (such as Federal intermediate credit banks, Federal home loan banks, Federal land banks, FNMA, etc.) have increased their borrowing demands both in terms of magnitude and frequency of borrowing. This borrowing has already become more expensive in relation to direct Treasury obligations and the spread in rates has widened as a consequence. The rate spread could widen further as enlarged Government agency borrowing reaches the market, particularly if this increases the frequency of borrowing operations. On some recent occasions, it has appeared that the Government agencies were competing among themselves for funds and have had to pay a higher rate in the market because of this.

Section 2(b) of H.R. 14544 amends section 302(c) of the Federal National Mortgage Association Charter Act by giving FNMA authority to issue securities under the new program "notwithstanding any other provision of law." We believe it is essential that the authority of the Federal National Mortgage Association to issue securities as contemplated under H.R. 14544 be made subject to the approval of the Secretary of the Treasury in order that such transactions be handled with utmost care so as not to disturb market financial processes more than is absolutely necessary.

Very truly yours,

CHARLES E. WALKER.

The CHAIRMAN (reading):

(1) The type of transactions envisaged seem to us to be simply another type of deficit financing, rather than a genuine substitution of private for public credit, but at interest rates higher than is effected in the usual manner through sales of Treasury obligations. Although no serious objection could be made to this alternative type of financing of itself, the higher interest cost that is likely to be incurred should be of concern to both taxpayers and the Congress.

(2) Debt operations of the type authorized in H.R. 14544 bypass the public debt ceiling and the interest rate ceiling on new issues of Treasury securities with maturities beyond 5 years. Our purpose here is not to defend the arbitrary manner in which these limitations can impinge on budget spending and Treasury debt management. But we do believe strongly that the issue of our relaxation or elimination of these limitations should be confronted directly in the Congress and not bypassed through alternative methods of financing.

So that brings up several interesting points. From the standpoint of the taxpayer, which is going to be cheaper—increasing by a very substantial amount the interest that the Government will pay to those who buy participation certificates, or issuing long-term financing which of course would be on money that would appear in the budget and all the public would know that the deficit is a given amount. For instance, I checked last week with our Committee on Internal Revenue taxation and I said, What do you think our revenue for this year will be? He said about \$101 billion. I said, What do you think we will spend, about \$107 billion, a deficit, \$6 billion-plus?

It now appears that deficit was reduced by money a method of raising money by the sale of participation certificates, several billions of dollars, maybe 3, and so the deficit would appear to be only 3 billion or so.

Again, I said, What will be the revenue for next year? Well, he said, we think \$111 billion, maybe a little more, because this boom is really still going and apparently it is going to continue for some months. What will we spend? He said the budget is a little over \$112 billion, already the House has raised some items. I don't know how much more it will be, but some items like the milk program, school lunch program, impacted area aid for schools and things like that, but the impression was, as the distinguished Vice President said in New York, without a tax bill we can have next year both guns and butter and that we are only going to have a small deficit and we won't have serious inflation.

But we will be raising \$4 billion by selling participation certificates that will be spent and it will have the same inflationary effect or more, and it might cost us more in the long run than if we honestly face up to the fact that we are going to have a budget deficit of \$5 or \$6 billion next year. The Treasury is going to borrow the money, but it is going to borrow it on long-term bonds—on participation certificates—instead of the short-term paper that is all that can be sold now under the 4 $\frac{1}{4}$ -percent ceiling. We will have to look at whether or not, if we need to get this money, we should do something about limitation on 4 $\frac{1}{4}$ percent.

I say these are some problems that our committee has to consider. We want these agencies like the Small Business to have this money because credit has gotten so tight, that the average merchant, for instance, who needs a little money, he just can't get it.

I was talking the other day with the president of the fourth largest savings and loan association. He said we are selling good paper. We can't take care of some of our best customers. We just can't get any money.

Well, I understand that it is getting tight everywhere, that loans are hard to get. That is one of the reasons we acted promptly. We didn't think we had time to wait for supplemental money for small business.

Now, I don't know how many other agencies that lend money are in as acute a condition as the Small Business Administration, but we had to commingle business loans and disaster loans. We had a lot of disasters and it exhausted our funds. We were faced with an emergency and we rushed through a bill.

But, now it is proposed to commingle all of these debt obligations into a new agency, so to speak, not new, but it wasn't created for this purpose, FNMA we called it, and let them sell billions of dollars of certificates. It creates a problem in what is the most effective and the cheapest way to meet the obligations that confront us, and whether, if we take a good look at what we are doing, we want to spend what some people are planning to spend or to cut down, or will we just say, if we do this, we have to have more revenue and we will put on taxes.

Those are problems that have got to be met by our committee because after all, we carry a big responsibility and as far as we know how, we follow a program of sound business policy.

Senator SPARKMAN. Mr. Chairman, there are a few things I wanted to ask about. First, Mr. Schultze and Mr. Barr, has the committee reported H.R. 14554 yet?

Mr. BARR. Yes, sir.

The CHAIRMAN. Twenty-two to three.

Senator SPARKMAN. It is on the House calendar.

The CHAIRMAN. It hasn't been printed yet.

Senator SPARKMAN. Do you have the bill before you?

Mr. SCHULTZE. I have it before me but without several House amendments. Yes, sir; I do.

Mr. BARR. Yes, sir.

Senator SPARKMAN. Mr. Chairman, I ask that the bill as reported by the House committee be printed in the record.

The CHAIRMAN. Without objection, that will be done.

Senator SPARKMAN. Would you look at page 6, section 3, subsection b, I am a little puzzled on the amendment of the Housing Act. You delete 1968 and then you say "1965 and 1967 and 1968." Why do you leave out 1966?

First of all, I would like to ask why are you amending the Housing Act in this bill?

Mr. SCHULTZE. The effect of subsection (b) is to reduce the new borrowing authority for the college housing program by \$300 million, since the funds, that will be received from the sale of participations will resolve previous borrowing authority. In other words, the funds received from the sale of participations in college housing over and above those needed to finance the college housing program that year will be repaid to the Treasury, reduce the obligation of the college housing program to the Treasury, increase its borrowing authority, and thus restore it to the status quo. That is the reason for the subsection.

The reason for leaving out "1966" essentially is that we assume that this legislation is going into effect July 1, 1966, and you don't need it.

Senator SPARKMAN. What will happen to the \$300 million, was it, that was to be added July 1, 1966?

Mr. SCHULTZE. What I am saying, Senator, is that the budget program sales of \$820 million of participations in college housing

loans will be substantially larger than the funds needed in fiscal 1967 to make \$300 million worth of new loans. The extra money goes into the Treasury, increasing the borrowing authority available for college housing. This subsection simply removes a further increase in borrowing authority to leave the situation about where it was before.

Senator SPARKMAN. It doesn't change the borrowing authority, does it?

Mr. SCHULTZE. That is right.

Senator SPARKMAN. And the \$300 million which would have been added you anticipate being replaced by the sales.

Mr. SCHULTZE. Correct.

Senator SPARKMAN. In other words, there will be no loss to the college housing program.

Mr. SCHULTZE. That is correct, sir. There will be no loss. Actually, netted out, there will be a slight gain.

Senator SPARKMAN. Then why do you include 1967 and 1968? Why do you put the numerals there? Wouldn't the same thing hold true for these years? Or would they be sold out?

Mr. SCHULTZE. I am sorry that I am so slow in answering this. It is a technical point. We won't know until the budget for 1968 comes around exactly what the situation will be. This is the reason we didn't propose changes in the 1968 authority.

Senator SPARKMAN. It seems to be that the whole thing could be handled administratively without the requirement of being written in. I have no objection, as long as the fund is not impaired.

Mr. SCHULTZE. The fund will not be impaired, Senator.

Senator SPARKMAN. At any time.

Mr. SCHULTZE. At any time.

Senator SPARKMAN. All right. Now, Mr. Barr, you have quoted from the House Ways and Means Committee, minority report.

Mr. BARR. Yes, sir.

Senator SPARKMAN. That was last year?

Mr. BARR. It was 1963, Senator Sparkman.

Senator SPARKMAN. How many signed that?

Mr. BARR. Every member of the minority signed it, Senator, and I must say we took the advice of the minority. They said don't be coming up here asking us to increase the debt ceiling when you are sitting here, like a banking institution, holding a large portfolio of loans which can be sold. We did follow their advice and, as they point out in the report, we increased our sales, after this admonition from the minority, by slightly in excess of \$1 billion.

I quoted the report to show the feeling that seems to exist in the Congress that this Government is not a banking institution created to sit and hold very large portfolios of Government loans. These Government direct loans are not just borrowed money, they are taxpayers money.

It seems to have been a feeling of this minority, and widely reflected in Congress, that taxpayers and borrowed money should be used for the purpose of Government—but one of these purposes is not to build an enormous portfolio of loans. It was one of the clearest statements that was available of what the Congress seems to think about this practice.

Senator SPARKMAN. What about this varying interest rate? Will there be a loss to the Government? In other words, you will be paying on the participation certificates, in some instances, a higher interest rate than the paper calls for, won't you?

Mr. BARR. That is correct, Senator. In looking at the costs, I think that the cost is not the difference between the 3-percent loan and what it would sell for in the market, about 5.3 percent. I think the accurate way of looking at the cost, Senator Sparkman, is to compare what it would cost us to borrow in the Treasury—

Senator SPARKMAN. I was going to follow up with that; how does that compare with what you would have to pay?

Mr. BARR. At the moment, as Director Schultze has indicated, the difference between Treasury borrowing and this participation route runs between 25 and 35 basis points, or one-fourth to three-eighths of 1 percent. If you translate that, Senator, into fiscal year 1967, it would cost the United States, to take the participation route, between \$10 and \$14 million to raise this amount of money and to reduce the portfolio of loans by \$4.7 billion. That would be the cost.

Mr. SCHULTZE. Could I add one other point to that, Senator?

Senator SPARKMAN. Yes.

Mr. SCHULTZE. I think it is important to bear in mind, that it has always been cheaper for the Treasury to borrow money than any other entity or any other way of borrowing money. And yet, and I think wisely over the years, the Congress has operated on the principle that where you can get credit to borrowers by Federal insurance or guarantee and have private money come in, it ought to be done that way, even though it is slightly more costly than if you did it directly through the Treasury.

And as you know, we have many programs which do that, VA, FHA insurance, ship mortgage insurance, there are guaranteed small business loans, these kinds of things.

It turns out we do have a number of programs, however, that even with a guarantee, it is impossible to have a direct connection between the lender and borrower. So the Federal Government has to make that connection by making a direct loan. But we think there is a way of getting private money in, even though the Federal Government has to make a direct loan by having the Federal Government make the loan initially and then pool it, give you a better piece of paper and sell it out.

We think the sale of participations performs exactly the same function as the guarantee—bringing private capital in. Admittedly it is slightly more costly in terms of interest rates than if the Treasury itself did it, but if we use the argument that the Treasury ought to do everything because it is slightly cheaper, we would be doing everything that way.

Senator SPARKMAN. What is the estimated amount that you would sell during fiscal year 1967?

Mr. SCHULTZE. The amount that we would sell through participations now estimated in fiscal 1967 is \$4.2 billion. Of that \$4.2 billion, about \$1,350 million could have been done under existing legislation, this legislation therefore adds \$2,850 million.

Senator SPARKMAN. This would add \$2,800 million?

Mr. SCHULTZE. That is right.

Senator SPARKMAN. Then in succeeding years, would it climb about the same amount?

Mr. SCHULTZE. That is very difficult to say. There would still be two things: First, significant amounts of loans will be left in the portfolios, even after the sales, secondly, on going programs would continue to generate portfolios. I can't give you a number, but it would be significant. The exact amount I wouldn't really know, but \$2 to \$3 billion is not an impossible number.

Senator SPARKMAN. Mr. Schultze, the question we see raised every so often by economists and writers suggest a change in our bookkeeping system. Are you still giving, do you give consideration to that along the way so as to reflect the true condition, whereas the present system more or less lays aside the assets there are on hand?

Mr. SCHULTZE. This is something we have looked at. As a matter of fact, I have just been looking at a book published by the Brookings Institution. One of our staff members on leave wrote it on the capital budget. The budget which economists tend to look at in judging the impact of the budget on the economy is called national income accounts budget. This budget tends to treat loan transactions as part of the monetary sector and to exclude them from the Federal sector of the income accounts budget.

Essentially the impact of this bill, to the extent that it nets out receipts against payments, is to do the same thing. So that the practical effect of it is to make the administrative budget closer in concept to the national income accounts budget, which is precisely the one that most economists use in judging the impact of the budget on the economy.

So, in essence, therefore, the practical effect of this from an accounting standpoint is to make the administrative budget measure of the economic impact somewhat closer to the budget that the economists use.

Senator SPARKMAN. It does have the practical effect, as I see it, and as is brought out by Mr. Barr's statement, of reducing the terrific amount that is carried in our portfolio?

Mr. SCHULTZE. Some \$33 billion now; that is correct, sir.

Senator SPARKMAN. Thank you very much.

The CHAIRMAN. Would you tell us approximately how much money you figure will be raised in this program? If Congress grants it?

Mr. SCHULTZE. In fiscal 1967, the planned sales of participations by the Federal Government is estimated, we plan, \$4.2 billion. Of that \$4.2 billion, \$2,850 million is made possible by this bill. The remainder could be done under existing legislation.

The CHAIRMAN. How much for the existing fiscal year?

Mr. SCHULTZE. This bill in and of itself does not make possible any participation in sales we weren't planning on. This year, under existing legislation, plus under the small business participation bill, which the Senate passed recently, we would have something over \$2 billion of participation sales, in fiscal 1966, under existing legislation and SBA legislation.

The CHAIRMAN. So you do plan about \$2 billion for fiscal year 1966, the current year?

Mr. SCHULTZE. \$2,600 million of participation sales this year.

The CHAIRMAN. The Chair recognizes the Senator from Utah.

Senator MUSKIE. Would the Senator yield just to clarify that point?

You say 2 billion 6 is not required by this legislation; did you or did you not mean to say that?

Mr. SCHULTZE. About \$350 million of it assumes passage of the separate small business participation bill. The remainder, 2 billion 3, therefore, out of the 2 billion 6 would be possible under existing legislation.

Senator MUSKIE. Neither of those figures is dependent upon this legislation?

Mr. SCHULTZE. That is correct. However, let me make one point on that, if I may. The major reason we are urging prompt passage of this bill is that it takes a significant amount of time to go through the steps required under this legislation, including through the appropriations committees; that, to plan the sales, having done that, to make the announcement; having done that, to set a price; having done that, to get the receipts in, and we want to avoid having to cram this all up into a short portion of fiscal 1967. Therefore, even though we are still well before fiscal 1967, we think it is very necessary to have this authority soon so we can begin to take the necessary orderly steps in marketing in 1967.

Senator MUSKIE. This legislation is necessary for fiscal 1967 and not fiscal 1966.

The CHAIRMAN. I am glad the Senator brought that point out. I thought the thrust of this was for the current as well as the next fiscal year.

Mr. SCHULTZE. No, sir.

The CHAIRMAN. But you can raise 2 billion 3 under existing law, only 300 million under the Small Business Administration would be affected?

Mr. SCHULTZE. That is correct.

The CHAIRMAN. So the major impact of this bill is for the year that does not commence until July 1 next?

Mr. SCHULTZE. That is correct.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Gentlemen, as I have listened to the discussion, I am coming to realize that in passing this bill we are making a very major and permanent change in the method of financing the operations of the Federal Government.

This is not an emergency bill to get us through 1966 and 1967. This is a bill which will put a new element in the Treasury's management of our cost of Government, and I think probably is going to require very definite change in our method of reporting the cost of Government to the American people.

I don't question the right of the Treasury to approach their problem in this way. Actually, as I have listened to the testimony, I realize that the problem has been sneaking up on us for a long time, ever since the Treasury or the Federal Government went into the business of direct loans.

We could have foreseen that the day would come when the total of those loans would be a burden and we would be tempted or advised to reduce that burden by selling the loans in some form or another back to the private sector.

It is interesting to observe that in 1959, when President Eisenhower used a variation of this process to get past the crisis, the resolution was offered, voted and approved in the Senate condemning this action and many of the members of the Banking Committee were the authors of that resolution and the present President of the United States spoke and voted for it, condemning this kind of an approach.

So we have grown up. We have learned a lot in 7 years.

Senator SPARKMAN. We have learned from our Republican brethren.

Senator MUSKIE. Excellent teachers.

Senator BENNETT. It is interesting that the Republican minority suggests an improvement.

Mr. BARR. Senator Bennett, if I may—

Senator MUSKIE. You are not going to run out on us now that we have joined you?

Senator BENNETT. I am going to point out ways by which you can save yourselves from further criticism.

Mr. BARR. The present Under Secretary of the Treasury should be included in that last group. I spoke in the Congress in precisely the same vein, sir.

Senator BENNETT. Well, my father used to have a phrase, "It is a condition, not a theory." Now we realize that this is a condition, those of us who opposed it as a theory a few years ago have changed their position.

Comment has already been made and questions have been asked indicating that when this new form of financing comes into general use it is going to leave many questions in the minds of people affecting (a) the budget deficit, because we are going to have one for a year or two, and (b) the debt ceiling.

It is the opinion of this Senator that unless the budget reporting is set up in such a way that income from this type of borrowing is shown separately and clearly and shown as a reduction in the regular budget deficit, the administration is going to lay itself open to a charge of deceit.

This could become a political issue and the so-called credibility gap and management of news charges can be illustrated or demonstrated by this procedure unless it is properly handled.

I wonder if we haven't reached the point, Mr. Schultze, where the method of reporting the budget should include at least a reporting of the total amount of private loans made by the Government to the private individuals at the beginning of a term, the increase in that amount during the term, and the decrease created by the sale of these participations, because this will have a very definite effect on the deficit as reported, and unless it is understood and carefully spelled out, it can be the basis of accusation, maybe unfair, that this device is used to conceal budget deficits.

Now it seems to me those three facts become important.

We are going to embark upon a permanent program of the sale of participations. This bill has no expiration date. It is a new perma-

nent program, part of the Treasury's business. So, I think unless the budget shows it not included in some other total, but plainly spelled out and unless the budget reporting shows the deficit that exists in terms of tax revenues and expenses, and then shows separately the impact of the borrowing, both through the selling of Treasury obligations and the selling of participations, we are really going to confuse the people.

Even though it may be said that this brings the administrative budget more nearly into line with the national income accounts budget, the ordinary individual doesn't know what that budget is. He just looks at the figure given by the President and says, we are going to have a budget deficit this year of so much, and I think he is entitled to know that the deficit has either been increased or decreased by transactions in this field of borrowing.

Do you agree with me?

MR. SCHULTZE. Well, I don't know whether I can simply say yes or no to that, Senator. If I may have a moment or so—in the first place, in 13 pages of detail, with appropriate summaries, we do publish and have published for several years in the budget a special analysis of our credit programs which, among other things, shows program by program and in total exactly how much we are planning to sell of these assets, either directly or through participations.

As I say, it gives it in total, by individual program, and by type of sale, so that anyone who wishes can see this. Not only that, in addition to the special analysis there is a special section in the President's budget message—by that I mean the part that the President himself signs—calling attention to this. That is point No. 1. All of the facts are laid out and are by no means concealed. We have gone to great pains to spell it out in great detail.

The second point on this is that it is indeed a very complex matter to decide what ought and ought not to go into the "deficit." Let me give you an example. Until last year the rate on college housing loans was higher than 3 percent. It was reduced to 3 percent. Under the earlier set of circumstances—when rates were higher—the short maturities in the public issues generally were taken up by the private market and sometimes all of a public issue was taken up by the private market. That never appeared in the budget. I don't think anyone ever thought it should show in the budget, even though it was in a sense part of a general program to help colleges build housing.

Now, by a change of a very small amount, a few eighths of a percentage point in the interest rate, short-term as well as long-term public issues are being bought by the Federal Government. Under this technique that we are proposing those loans would be pooled and sold out again. The net result, really, in terms of the taxpayer is to put you back exactly where we were before, where nobody really claims they should have showed up in the budget deficit.

The only difference is a very slight difference in the interest subsidy which will be shown and counted in the budget.

So, what I am really saying is—and this is the whole thrust of this program—is not to disguise the deficit in some sense, but to recognize the fact that the purpose of the Federal Government in these programs is to assume some of the credit risk and get funds to borrowers in.

In some other cases you can do it through a direct guarantee. In this case the loan has to be made initially by the Federal Government and pooled and sold out.

It seems to me it is perfectly in keeping with the traditional treatment of these programs to show it the way we are showing it.

Senator BENNETT. On the other hand, the so-called man in the street doesn't go back to all of these supporting documents and all of this technical data. He is led to believe that the final figure which is announced as the budget deficit actually represents a difference between the income from taxes and the operating expenses of the Federal Government.

The fact that in the coming fiscal year the President projects a very small budget deficit, but brings into that rather substantial amounts that have not been in previous years, destroys the comparability, and I think we have got to preserve the comparability and I believe that if you don't—and this is just a warning from a man on the other side of the political fence—if you don't, you are going to be charged with deception, and this is pretty good political fodder.

Now, I don't like to see the Treasury of the United States charged with deception and I believe that if this is going to be a permanent program, as it seems, and if we are going to embark now on a program of borrowing through the sale of participation certificates; that the impact of these borrowing transactions on the budget deficit should be so clearly recorded that it can't be missed.

While \$2 or \$3 billion may not be large in respect to the hundreds of billions of dollars that come in from other sources, I think this is important.

I have talked too long about that.

To what extent is it fair to say that in practice these participations are backed by the full faith and credit of the U.S. Government? Do they, in effect, have as much backing as a Government bond?

Mr. BARR. In practice, Senator Bennett, that is true. The legal definition, however, is different.

Senator BENNETT. I understand that.

Mr. BARR. This legal distinction will give the States the right to tax these securities. If it is a debt instrument bearing the full faith and credit of the United States, then it becomes a Treasury issue and cannot be taxed by the States. This is the reason for the slight distinction.

Senator BENNETT. But you can't conceive of a situation in which an owner of a participation certificate would find that it would be in default?

Mr. BARR. No, sir; I couldn't.

Under this proposal, Senator Bennett, I quite agree with you. The last thing we want is to destroy credibility. That is the reason we are providing for the appropriating process.

These securities, Senator Bennett, will be backed, by FNMA, but also by an agency that goes to the Appropriations Committee, gets an act, and the act is passed by the Congress. So this is about as much the full faith and credit of the United States as you can get.

In the final analysis, full faith and credit of the United States is the authority granted by the Congress, and that will be granted explicitly every year for every issue covered by this legislation, Senator.

Senator BENNETT. As new leading programs come into being—and we create them quite frequently—will they be subject to the same situation and subject to being used as the background for participation?

Mr. BARR. That is correct, sir.

Mr. SCHULTZE. Yes, sir.

Senator BENNETT. So that this program could continue to increase substantially.

I have been trying since this bill came over here to get a list of the leading programs that are now available. I get told, "Well, here are the main ones, the others are inconsequential."

Can you supply for the committee a list of all of the existing lending programs which would be subject to this legislation?

Mr. SCHULTZE. Yes, sir.

Mr. BARR. Yes, sir.

(The list follows:)

Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program

[In millions of dollars]

Agency or program	1965 actual	
	Direct loans	Guaranteed and insured loans
A. MAJOR AGENCIES OR PROGRAMS		
Office of Economic Opportunity.....	17	
Department of Agriculture:		
Commodity Credit Corporation.....	2, 115	419
Rural Electrification Administration.....	4, 072	
Farmers Home Administration.....	1, 990	727
Department of Commerce:		
Economic Development Administration.....	126	
Maritime Administration.....	109	419
Department of Defense: Military assistance credits.....	79	
Department of Health, Education, and Welfare:		
Office of Education.....	538	
Public Health Service.....	13	
Department of Housing and Urban Development:		
Federal National Mortgage Association.....	2, 121	300
Federal Housing Administration.....	527	49, 042
Public housing program.....	60	5, 033
College housing program.....	1, 927	
Urban renewal program.....	196	1, 382
Other major programs.....	342	
Department of the Interior: Reclamation loans.....	90	
Department of State: Agency for International Development.....	8, 997	144
Treasury Department:		
Loans to District of Columbia.....	139	
Foreign loans.....	3, 763	
Veterans' Administration.....	1, 649	30, 951
Export-Import Bank of Washington.....	2, 490	2, 617
Small Business Administration.....	1, 147	104
Total, major agencies or programs.....	32, 507	91, 138
B. OTHER AGENCIES OR PROGRAMS		
Department of Agriculture: Soil Conservation Service.....	15	
Department of Commerce: Aircraft loan guarantees.....		9
Department of Defense:		
Loans for construction of Ryukyu power system.....	9	
Defense production loans and guarantees.....	14	49
Department of Health, Education, and Welfare:		
Community facility loans.....	(1)	
Hospital construction activities.....	4	
Assistance to refugees in the United States.....	6	
Department of Housing and Urban Development:		
Urban mass transportation loans.....	2	
Liquidating programs (Community Facilities Administration).....	13	
Community disposal program.....	4	

See footnote at end of table.

Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program—Continued

Agency or program	1965 actual	
	Direct loans	Guaranteed or insured loans
B. OTHER AGENCIES OR PROGRAMS—continued		
Department of the Interior:		
Alaska public works (repayable investment)	16	-----
Bureau of Indian Affairs	24	-----
Defense Production Act loans	8	-----
Fisheries loans	6	-----
Ship mortgage insurance		5
Guam rehabilitation program	2	-----
Minerals exploration program	1	-----
Department of Labor: Manpower development and training loans	(1)	-----
Department of State:		
Repatriation loans	3	-----
Loans to the United Nations	107	-----
Treasury Department:		
Defense Production Act loans (liquidating)	4	-----
Reconstruction Finance Corporation (liquidating)	5	-----
Civil defense loans	(1)	-----
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation fund	131	-----
General Services Administration:		
Public Works Administration bonds (liquidating)	58	-----
Surplus property sales credit	100	-----
Interstate Commerce Commission: Guaranteed railroad loans		214
National Capital Planning Commission: Advances to the District of Columbia and Maryland	(1)	-----
Veterans' Administration:		
Service disabled veterans fund	4	-----
Vocational rehabilitation fund	(1)	-----
Veterans special term insurance fund	5	-----
Veterans insurance and indemnities fund	1	-----
Veterans reopened insurance fund	(1)	-----
Total, other agencies or programs	547	276
All agencies	33,054	91,414

¹ Less than \$1,000,000 outstanding.

NOTE.—Figures may not add due to rounding.

Senator BENNETT. Can you explain to us how the sale of these participations will be coordinated with the activities of the monetary authorities?

Mr. BARR. Yes, sir. It will be coordinated through the Treasury. As you know, we have a close relationship with the Federal Reserve Board. The Chairman of the Federal Reserve Board lunches with us every Monday and we are in constant communication with him.

The Under Secretary of the Treasury for Monetary Affairs is a member of the Board of FNMA, so the coordination with monetary authorities will be through the Treasury, Senator Bennett, and I think this coordination will be improved.

If I may refer to a letter that Senator Robertson put in the record from the American Bankers Association, sir, they mention that nearly everyone who has ever looked at this whole area of Federal credit program has urged us, where possible, to substitute private for Federal credit. They have urged us to sell assets that they will buy.

In this area of coordination, however, there are two problems: If you sell the assets directly, each one of these agencies is attempting to get into the market at given times. The coordination process, Senator

Bennett, is almost impossible. You can compare it to several people trying to get through the door at the same time.

We believe that through the coordination that we can achieve through FNMA, we can bring some sense into this whole area and the coordination will move from FNMA through the Treasury to the Federal Reserve Board. This, in our opinion, is a vast improvement over the present situation.

Senator BENNETT. That leads up to this question: FNMA was originally created to provide a secondary market for housing mortgages. It was expected they would move in and out as the private market made it possible. It is a part of the Department of Housing and Urban Development now.

If this is going to become Government-wide in its scope, why shouldn't the process and the control of the coordination be moved into the Treasury leaving FNMA to carry out its original function? If it has to be coordinated with the monetary authorities, and if this is going to be a permanent part of Treasury's programs for financing, why shouldn't an amendment be offered to the bill which moves this into the Treasury?

Mr. BARR. Senator, we looked at this approach and it is an approach. Reasonable men can differ over this. It seemed to us that FNMA was established. It had its relationships with the market. We had a long record of cooperative arrangements and coordination with FNMA and from the Treasury, as I mentioned before, back to the Federal Reserve System.

We decided that instead of creating another agency, we should use what we had. It worked well in the past, and we thought it would continue to work well in the future.

Senator BENNETT. I can't think of any agency that has a closer relationship with the market than the Treasury. You are in the market much more frequently than FNMA.

Mr. BARR. That is correct.

Senator BENNETT. It would seem to me if it is just a question of experienced personnel, maybe they can be moved out of HUD into the Treasury, but I predict that if this becomes a permanent part of our financing program, that the day will come when it will move into the Treasury because as more and more agencies begin to lend money, the spectrum will just be so broad that the Department of Housing and Urban Development will no longer appear the proper department to handle this kind of a problem.

Mr. SCHULTZE. There was one advantage with FNMA in that this does involve the pooling of a number of individual loans and relationships with other agencies and keeping the books on this and everything else. It turns out, unlike Treasury, this particular one, FNMA, does have experience, and I mean specifically they have already done this over the last year and a half, so there was some advantage in taking advantage of that expertise.

Senator BENNETT. There was a time when it was assumed that FNMA would possibly become a privately operated, privately capitalized operation. In other words, that the need for the Government to supply a secondary mortgage market would disappear because the private industry would supply the secondary mortgage market. This of course would completely eliminate that thought.

Mr. SCHULTZE. No; the FNMA secondary market function is treated separately. The sale of participations doesn't go through their secondary market function. That is separate, as it has been, ever since 1954 when it was established as a separate function.

Senator BENNETT. I think it should be left with that market and I hope the committee will consider whether or not this thing as a permanent program hasn't become important enough to move into the Treasury.

Then there is another thought that occurs to me about this program. You have made abundantly clear that there are times when it is difficult for a private individual or a company, or an operation, to get credit and so the Federal Government through its various agencies supplies that need. And now you turn around and sell participation certificates.

Are you creating a psychological situation in which the banker will say, "Why should I take the risk? Why shouldn't I send my borrowers to the Federal Government and then buy the participation back? I supply the credit, but I supply it without risk."

Is it not possible and perhaps likely that to make this practice Government-wide is going to increase the penetration of the Government into the business of supplying credit to industry and while it is true that the sale of participations brings private money back into the situation, that money or the credit created by that money is Government managed and aren't we by this process increasing the extent to which Government will manage private credit?

You become a broker between the borrower and lender and you eliminate the risk and take full control.

Mr. SCHULTZE. Senator, let me point out that over the last 2 years really, as we have been moving into this participations area, we have also moved along the lines you have dictated, where it is feasible with the cooperation of the Congress, to take programs which were originally Federal and move them out and make them almost purely private. Let me give you two examples of legislation passed and one now pending.

The first case is the Farmers Home Administration direct loan program for rural housing. The administration proposed, this committee agreed, and the Congress passed legislation translating that direct loan program into an insured loan program. Last year, in attempting to get more credit flowing into student loans, again the administration proposed and the Congress agreed on a program of lending from individual banks guaranteed by the Federal Government with an interest subsidy, so there is a direct relationship here. Finally, we proposed the same kind of thing this year, a little more complicated, for national defense education loans.

What I am trying to get at is that we have quite consciously moved in the direction wherever feasible not merely going the participation route, but going further than that, where it is feasible, and putting the whole program back out into the private market with just a straight guarantee.

Now, the reasons we can't do it with these other programs varies depending on the nature of the program, but we are continually surveying and evaluating programs with this in mind. What I did want

to assure you is that use of the participation method in and of itself does not ignore the possibility of trying to get private credit in more directly than if it is brought in through participation.

Mr. BARR. Senator Bennett, my I mention that we accepted a House amendment to this bill that instructed the Secretary of the Treasury to make a study and come back to the Congress in 6 months, with a report on all Federal credit programs and the possibility of substituting guarantees for direct loans.

Senator BENNETT. I think that is important, because I think the risk of getting deeper and deeper into the market increases with the passage of this bill unless there is something to offset it.

You have been very patient with me and I probably used more than my share of the time and I can only defend that by saying that today I am the captain and the crew and the whole minority. Earlier you had a discussion with Senator Robertson about the additional cost. Somewhere in these papers here, is a page from the Congressional Record containing a statement put in by Senator Williams quoting from the Wall Street Journal, which showed that the first sale under the Small Business Act represented an increase in cost of six-tenths of 1 percent, rather than the 25 to 35 basis points you have suggested.

Can you tell me why that happened?

Mr. BARR. Senator Bennett, this is a perfect illustration of why we want to go the participation route. As I mentioned to you, representatives of nearly every part of the financial community have recommended that we get rid of the assets we hold by direct sales or by guarantees.

Now we tried the direct sale route with the SBA loans, these were SBIC debentures. We sold them directly into the private market. We had to take a discount of 9 percent. In other words, SBIC bonds that were issued to yield 5 percent on par of 100 had to be sold at 91 so as to yield an effective rate of 5.75 percent.

At almost precisely the same time, Senator Bennett, FNMA was in the market. It got a rate of 5.38 percent. The difference between the two rates is almost 40 basis points, or 0.4 percent, so you can make the point that it cost close to a half million dollars to go the direct sale route rather than participation route. That was the cost to the Government in this operation.

If we are going to get rid of assets, we are faced with the question of whether we should sell them directly in the market or sell them via the participation route. If we sold mortgages, Senator Bennett, they would be bought, as I mentioned, by the very people making mortgages, thereby increasing the pressure on the homeowner who is trying to borrow money.

The participation route takes us through the whole spectrum, Senator.

Senator BENNETT. The paragraph I was quoting from page 169 of the March 22 Congressional Record says:

It is interesting to note, that the following day after the enactment of the bill, the Federal National Mortgage Association sold \$410 million worth of participation certificates. The interest rate they paid was 0.6 percent higher than the interest rates for corresponding Government issues.

Mr. BARR. I'm sorry, I misunderstood you. There has been a churning in the market in January, February, and March, and Di-

rector Schultze and I have referred to the spread of 25 to 35 basis points—one-fourth to three-eighths of 1 percent.

We are referring to the experience we have had over the past 2 or 3 years. The market has been churning in the last 3 months. Sometimes there has been a wide spread between the rate on participations and Treasury securities and at other times, in the same maturity schedules, the cost of participation sales comes very close to that on Treasury issues. It varies on different days.

Senator BENNETT. Let me ask you a question now. Does the buyer know the actual instruments behind his certificate?

Mr. BARR. If he reads his prospectus, he will know what assets are in this pool. That will be clearly set forth.

Senator BENNETT. That is fine. Now one other comment. And this question was handed to me.

Does this device really substitute private for public credit? Isn't it rather a means of using public credit to provide private credit?

Mr. BARR. I would describe it, Senator, as an attempt to enable borrowers who can't get to the market to use the facilities of the U.S. Government to get to the market. In effect the Government—I will use the term you used—would act almost as a broker, and we admit that there is a cost in this thing.

The alternative is having the Treasury do all of the borrowing. As you have pointed out, these direct loans have grown and grown and grown, so that the Government is beginning to look more like a bank than a Government—clearly an unacceptable position.

Senator BENNETT. In the last analysis, the Government gets its money from the public in any of its activities.

Mr. BARR. That is correct, sir.

Senator BENNETT. So it depends on private credit, whether by this device, the device of selling bonds, but this is a device by which the Government becomes a kind of broker.

Mr. BARR. It is the only feasible way we can see—

Senator BENNETT. Mr. Schultze wags his head at that.

Mr. SCHULTZE. I hate to let it go by without adding a comment if I might, Senator.

These programs are established in law and the Government now is not only the broker, but is the holder. So admittedly it is true, the Government becomes a broker, but actually shift from being the whole banker to becoming a broker. I think this is backing off rather than moving further into banking operations.

Senator BENNETT. Although the Government does take on a brokerage function in its sales of participations, it doesn't seem to me that it is backing off. It still makes the loans and retains title to them. It have just used them as collateral to borrow from the private market.

Thank you. You have been very patient with me and I thank you.

The CHAIRMAN. The Senator from Utah has developed some interesting points. For example, suppose a man wants to build a house, and we say, "Get a mortgage on the house, take it to the bank; we will guarantee 90 percent of it." And that is private credit.

Now the Secretary of the Treasury said while the Government does not guarantee these certificates of participation, the agency guarantees them, but the Congress is going to honor that obligation, so as far

as the borrower is concerned, he can rely on it just as much as if he were buying a Government bond.

What we want to know is, in what way then, if he is buying what is equivalent to a Government bond, we are using private credit any more than if he bought a Government bond?

You can think about that, and if you want to put that in the record later, you can do it. I just at the moment don't see the distinction.

The next thing he brought up is the question of the ceiling on the debt. The present ceiling is \$328 billion. The present debt is \$320 billion. On July 30 the ceiling goes back to \$285 billion. Whether we act on this bill or not, you have got to act on the ceiling, isn't that true?

Mr. BARR. Yes, sir. While it is true that the very same types of private investors might buy the FNMA participation certificates as would buy U.S. Government bonds, there is nonetheless a difference in the degree of linkage between the final investor and the final borrower under various Federal credit programs. In the case of the participation certificate in a pool of assets, the investor obtains a beneficial interest in a specific pool of credit related to a specific credit program. It is a significant step along the path toward a fuller degree of private participation in the Federal credit programs, which would include direct contact between the investor and the ultimate borrower, servicing of the loan by the private sector, and a bearing of some part of the risk by the private investor. In contrast, the investor who holds a U.S. Government bond has an asset that is completely general in scope—it could be associated just as well, for example, with the purchase of an Atlas missile as with the holding of an SBA loan.

The CHAIRMAN. But if we go through with this bill, the ceiling could be, presumably, about 2 billion less in this current fiscal year, and the next fiscal year might be a full billion less, because the money that you raise under these certificates will not appear in the debt ceiling.

Mr. BARR. That is basically correct, sir.

The CHAIRMAN. The Chair recognizes the Senator from Illinois.

Senator DOUGLAS. I apologize for not having been present when the testimony began. I take it that what you are doing essentially, is to sell off assets in order to meet current expenditures?

Mr. BARR. No, sir. We could meet current expenditures, Senator Douglas, by borrowing through the Treasury or we could meet current expenditures by raising taxes.

The objective of this legislation is to reduce the Government's ever-mounting portfolio of direct debt.

Senator DOUGLAS. And with those amounts, you meet your current deficits, isn't that right?

Mr. BARR. Yes, sir; if you want to look at it that way.

Senator DOUGLAS. Now is this a new practice or has this been put into effect before?

Mr. BARR. It is quite an old practice, Senator. There is nothing new or novel about it.

Senator DOUGLAS. I wonder if we could have a little history? You know after having sat 18 years on this committee, one's memory of details becomes a little hazy, but I have the vague recollection that,

around 1958, the Secretary of the Treasury, or at least the Under Secretary, appeared and asked that this same authority be given in connection with FNMA. Is that true?

Mr. BARR. That is correct. Mr. Schultze has some figures here he would like to insert.

Mr. SCHULTZE. I am a little at a loss to know exactly how to introduce this, because I am not trying to make invidious comparisons.

Senator DOUGLAS. I am not making invidious comparisons. It is just that my memory is not perfect. I have the vague recollection that the Under Secretary of the Treasury or perhaps the Secretary at that time appeared and asked that this be done so far as FNMA was concerned. Am I right or wrong?

Mr. SCHULTZE. Correct.

Senator DOUGLAS. How much was sold off?

Mr. SCHULTZE. What I was going to give you was kind of a summary of 8 years of the Eisenhower administration in this area of assets.

Senator DOUGLAS. It began before 1958?

Mr. SCHULTZE. Correct, sir.

The total amount of Federal portfolio sold over those 8 years was \$21½ billion, approximately——

Senator DOUGLAS. Two and one-half billion?

Mr. SCHULTZE. We may have missed a few small sales, but as far as we can figure, 21½ billion.

Senator DOUGLAS. This was to help reduce the deficit which would otherwise have existed?

Mr. SCHULTZE. Right.

Senator DOUGLAS. So you are merely walking in the familiar paths first trod by the Eisenhower administration?

Mr. SCHULTZE. We did not go back to the Truman administration, I suspect we would have found some sales of assets there. We did not go back.

Senator DOUGLAS. This applies to sales of securities and not sales of commodities?

Mr. SCHULTZE. That is right, financial assets, loans, mortgages, and the like.

Senator DOUGLAS. How much did the Eisenhower administration lose in its sales of its assets?

Mr. SCHULTZE. I'm sorry, sir, I would have no idea of what that was.

Senator DOUGLAS. I think it would be very interesting to find out.

Mr. SCHULTZE. I can make one point on it, Senator, that in general, although not always, given the kind of assets in the Federal Government's portfolio, it will cost more, as a general rule, to sell them individually, than if they are pooled and sold. This is because of the risk pooling involved, quite apart from the guarantees.

Even a guaranteed mortgage is going to cost more to sell it individually than if you pool a number of mortgages.

Senator DOUGLAS. You are the Inspector General for the Government, and your agency keeps a very close watch on all public bodies. Haven't you ever figured out what the loss was on the sale by the Eisenhower administration of these securities and mortgages, or are you drawing a silken curtain of secrecy over these?

Mr. SCHULTZE. No, sir. I think the only way one can, I think, legitimately calculate a loss is to look at the difference between what it would cost to continue to carry the securities by having Treasury debt outstanding and what it costs to get rid of them.

Senator DOUGLAS. That is what H. J. Davenport used to call "opportunity costs," but I don't recognize that. I would only like to know the difference between the amounts which the Government originally paid for these assets and the amounts which they secured when they sold them off. What was the loss?

Mr. SCHULTZE. That would be a different and possibly larger number.

Senator DOUGLAS. Yes, indeed; and do you mean to say that the very efficient Bureau of the Budget has not computed these losses?

Mr. SCHULTZE. I'm sorry to say, sir, we have not.

Senator DOUGLAS. This is a grave delinquency and I am surprised. If this had been some poor Government administrator, you would know how much he was losing. But you have never gone into this?

Mr. SCHULTZE. It may have been gone into——

Senator DOUGLAS. I am going to ask you to go into it and to produce for the record the amounts lost between the periods 1953 and 1961, and the amounts lost since 1961. Also, we should have the amounts sold, and the amounts which were originally paid. But not so-called opportunity costs. You see, the Government buys these things, but never likes to admit that it loses anything.

Mr. SCHULTZE. Two points, Senator. We will try, to the best of our ability.

(The information will be supplied later for the committee's use.)

Senator DOUGLAS. You have such an able group of men, you certainly should be able to do this. You have the cream of the intellect of Washington. This is a modest task. I am not asking a heculean task, but this is a modest task considering the intellectual assets you have.

Mr. SCHULTZE. There are, of course, as you know, hundreds of individual transactions stretching over this.

Senator DOUGLAS. Don't you have computers?

Mr. SCHULTZE. Yes, sir.

Senator DOUGLAS. On my basis of computation, how much are you going to sell off and how much do you expect to lose?

Mr. SCHULTZE. Senator, two points. First, the total amount of sales of participation in fiscal 1967 is planned at \$4.2 billion. Now, Senator, I would in all respects still insist that when the Federal Government makes a loan at 3 percent, whether it sells that loan out or not, it has taken the loss.

Now it takes the loss as a stream of income.

Senator DOUGLAS. Then you divide your loss into two groups, the loss occasioned by the low interest rate, and then, second, the loss occasioned by the sale to private parties?

Mr. SCHULTZE. The "loss" occasioned by the sale to private parties would presumably be the opportunity costs, which is the difference between carrying it continually at the Treasury rate and what it costs to sell participation. That, I can give you. That depends on the market.

Senator DOUGLAS. How much do you estimate that to be, on the sale of \$4.2 billion?

Mr. SCHULTZE. Two points on that. First, our past experience with a much smaller volume of participations outstanding, we already have some participations sold in the past, is about 25 to 35 basis points or a quarter to three-eighths of a percent. But, one of the reasons why that spread is what it is is because the secondary market for these participations, since only \$1.6 billion is outstanding, is rather thin. As more get outstanding, the market will be broader and deeper and hence that spread should narrow.

The spread also, obviously, varies from time to time and day to day, but from past experience, it was one-quarter to three-eighths.

Senator DOUGLAS. Now, Mr. Schultze, you also mentioned that of course the Government would take losses on the sale of loans at 3 percent. But FNMA loans have not been at 3 percent?

Mr. SCHULTZE. No, sir; that is correct.

Senator DOUGLAS. Now I have always suspected that FNMA was a happy dumping ground for a lot of sour stuff, and for 17 years I have been trying to probe FNMA. And I always come up against this assertion, "Oh, they are just as good as any other types of mortgages."

Now their losses are not occasioned by any 3 percent. What proportion of the \$4½ billion would be FNMA holdings?

Mr. SCHULTZE. In our 1967 estimate of \$4.2 billion, the following kinds of sales would be made:

FNMA, \$520 million worth, from portfolios in FNMA. In turn, that is composed of two kinds of items, the management and liquidation portfolio and the special assistance portfolio.

College housing loans, \$820 million.

Senator DOUGLAS. Those are low.

Mr. SCHULTZE. Public facility loans, \$80 million; that is 3¾ to 3¾ percent.

Senator DOUGLAS. You have \$2.8 billion to go.

Mr. SCHULTZE. Veterans' Administration direct loan portfolio, \$154 million.

Loan guarantee revolving fund—vendee loans—\$106 million.

Senator DOUGLAS. You are up to \$1.7 billion, if my arithmetic is correct.

Mr. SCHULTZE. Export-Import Bank, \$975 million.

Senator DOUGLAS. That is the biggest figure yet, Export-Import.

Mr. SCHULTZE. Rounded to a billion.

Small Business Administration, \$850 million.

Farmers Home Administration, \$600 million.

And the Office of Education, \$100 million; these would be academic facility loans.

Senator DOUGLAS. Now how much of this is in low interest loans? The Export-Import Bank loans are not low interest?

Mr. SCHULTZE. Five and one-half, generally.

I will give you the range of interest rates involved. For example, in the Farmers Home Administration, the bulk of them are in the 4- to 5-percent range.

In the case of the Office of Education, these range between 3 and 3⅝ percent.

Senator DOUGLAS. Export-Import?

Mr. SCHULTZE. Those are generally 5½-percent loans.

Senator DOUGLAS. Those have not been subsidized loans?

Mr. SCHULTZE. Those are not essentially carried in this bill, in the sense——

Senator DOUGLAS. Do you expect losses on the sale of these?

Mr. SCHULTZE. Of the Export-Import, no, sir. So far they have been able to do this pretty well, they have taken no losses.

Senator DOUGLAS. I have always been concerned whether the Government was having dumped upon it a lot of sour loans and mortgages. Now we made a conscious choice, which I supported, and I am still supporting, to have loans for college housing and other features. But many of these activities, such as FNMA's, have been at the request of the real estate market. The Export-Import Bank has made its loan at the request of those supporting it.

Have you ever surveyed the quality of these loans?

Mr. SCHULTZE. Not as a broad across-the-board survey, no, sir.

Senator DOUGLAS. But you mentioned the volume of all of these loans in the amount of \$33 billion.

Mr. SCHULTZE. That is correct.

Senator DOUGLAS. Do you mean you haven't assayed \$33 billion worth of alleged assets?

Mr. SCHULTZE. No, sir. What I mean, we do know where the \$33 billion is, we do know what the interest rates involved are, we have a good idea of the general nature and quality of the loans.

Senator DOUGLAS. How about the assets which lie behind? The Government owns metals; it owns foodstuffs; it owns securities.

Mr. SCHULTZE. That is right.

For example, we do have some figures, I don't have them with me, but agency by agency, in most cases, you can get a figure on the loss experience, for example, of the agency.

Senator DOUGLAS. You haven't done that?

Mr. SCHULTZE. Yes, sir.

Senator DOUGLAS. Would you make those results available to this committee?

Mr. SCHULTZE. To the extent that we can get the figure, yes, sir.

Senator DOUGLAS. Can't you get the figures?

Mr. SCHULTZE. In general, yes, sir. I don't want to promise what I can't deliver. In general we do.

Senator DOUGLAS. What are they holding in metals? How much does this amount to?

Mr. SCHULTZE. The market value of the raw materials stockpiles totaled \$7.3 billion on April 1.

Senator DOUGLAS. That doesn't include food and fibers?

Mr. SCHULTZE. Metals, raw materials.

Senator DOUGLAS. And food and fibers?

Mr. SCHULTZE. The commodity inventory, excluding loans, amounts to about \$2.8 billion on April 15.

Senator DOUGLAS. So you roughly have \$43 billion in all of these?

Mr. SCHULTZE. Or more; that is correct.

Senator DOUGLAS. Now, a good many of these commodities, whether hard goods or soft goods, were purchased in order to prevent prices from falling, not for a war reserve?

Mr. SCHULTZE. Are you talking about the metals?

Senator DOUGLAS. Yes.

Mr. SCHULTZE. A large part of them were purchased under contracts made during the early part of the Korean war, which essentially had a price support feature in them, so that is correct.

Senator DOUGLAS. I was against most of these measures to purchase metals in order to support prices and I know something of the forces which were at work. Those forces wanted to prevent the prices of these metals from falling.

Mr. SCHULTZE. I say, they were under contracts which essentially said the Government would take it off the market if the price goes below a certain amount.

Senator DOUGLAS. I wish you would get these figures. If not, we will ask the Comptroller General to make a survey.

Mr. SCHULTZE. I don't know whether that is a threat or a promise.

Senator DOUGLAS. It is an alternative to see just what these assets are worth, because these are tremendous figures.

This is one of those situations in which people claim to be strongly opposed to Government intervention, but they are pretty strong for Government intervention when it bails out private industry. Without indulging in mock heroics, I believe we should stick to the principle and let the chips fall where they may. I was somewhat critical of this practice under the Eisenhower administration.

Mr. SCHULTZE. Can I defend one point on this, Senator?

Senator DOUGLAS. On the Eisenhower administration?

Mr. SCHULTZE. No, sir; the other way around. I think there is one significant difference that Mr. Barr has already alluded to, that almost all of the sales made up until about 4 years ago were direct sales of individual mortgages, primarily.

When you make sales of individual mortgages, these are bought directly by mortgage lenders and have a very specific impact on the mortgage market.

Senator DOUGLAS. Also on losses, isn't that true, if you sold for less than you paid?

Mr. SCHULTZE. Correct.

Senator DOUGLAS. And that has never been computed?

Mr. SCHULTZE. Not to the best of my knowledge.

Senator DOUGLAS. You have all of these high-powered, high-speed computers, which can give you instantaneous results and you feed in thousands of separate items, and you have never done that?

Mr. SCHULTZE. No, sir.

Senator DOUGLAS. Has the truth been too terrible to contemplate?

Mr. SCHULTZE. No, sir.

The point I did want to make, Senator, is that when you go the participation route, instead of putting these mortgages directly into a narrow segment of the market, namely the mortgage market, and having a particular impact on that market, you are selling a much more neutral instrument which is attractive to a much larger and much broader market, and not just the mortgage market. You don't have that specific impact on the mortgage market.

Senator DOUGLAS. Do you want me to ask the Comptroller General to make a survey of the losses on these items?

Mr. SCHULTZE. Could you let me see what is available? I'm not sure what is available, if you are going all the way back to 1953, that is my only point.

Senator DOUGLAS. If the task is too heavy for you and the resources which you have available are too scanty, I will be very happy to write to the Comptroller General and his overburdened staff can perhaps do the job.

Mr. SCHULTZE. We will take a look at our resources.

Senator DOUGLAS. How long will that look continue?

Mr. SCHULTZE. I can give you an answer as to whether our resources can do it very quickly.

Senator DOUGLAS. How quickly is very quickly?

Mr. SCHULTZE. Within a week.

Senator DOUGLAS. Excuse me, Mr. Chairman.

Senator SPARKMAN (presiding). Senator Proxmire?

Senator PROXMIRE. Mr. Schultze, what are the built-in authorization restrictions here? You have made a good case on page 7. I think you indicated that the Appropriations Committee has to provide specific approval before these assets can be sold, any of these assets. So you have shut the back door, but if we pass this bill, how much of the, what is it, \$39 billion of assets then can be sold, assuming that the appropriation is passed?

Mr. SCHULTZE. Two parts to your question, I think, Senator. One is, What are the authorization controls? There are two kinds of controls on it in that sense. First, in program after program, the authorization bills have placed limits on the total volume of loans outstanding, for example Small Business Administration. .

Senator PROXMIRE. I understand that very well, but my question is, that you have these loans outstanding now.

Mr. SCHULTZE. Correct.

Senator PROXMIRE. You have them in your portfolio, and you have, as I understand in 1965, something like \$33 billion. You would have, if you didn't sell any of these participation, somewhere between 32 and 39.

My question is, How much of that can you sell without additional authorization, assuming the Appropriations Committee goes along?

Mr. SCHULTZE. Without additional substantive authorization?

Senator PROXMIRE. Sell the whole thing?

Mr. SCHULTZE. Most of it. We have looked at the assets that we think are appropriate to include in such pools, under present circumstances.

Senator PROXMIRE. Is that your conclusion that this committee, the authorizing committee, we are out of the act, having passed this?

Mr. SCHULTZE. That is correct.

Senator BENNETT. Will the Senator yield?

Senator PROXMIRE. Yes, sir.

Senator BENNETT. It should probably be pointed out that even after they sell the participations, they still have \$33 billion worth of loans in their portfolio. All they have done is issued a new form of security with that as backing. They are not selling the loans.

Senator PROXMIRE. That was my next question, and I think that is a very interesting question; that is, you don't diminish the federally owned assets at all; what you do is put them up as collateral.

Mr. SCHULTZE. In a sense, yes.

Senator PROXMIRE. And then you sell participations; is that correct?

Mr. SCHULTZE. Correct.

What we have done is bring into this—through the pooling device, private credit, but granted, the pool itself holds the assets—you are quite correct. But you have brought in the private credit to offset that.

This is where, I indicated to Senator Bennett earlier, where feasible, we have proposed legislation to change some of these programs to insured programs, under which, in no sense, do we hold the assets. In some cases that is feasible and in some cases it hasn't been feasible.

Senator MUSKIE. Will the Senator yield on that point?

Senator PROXMIRE. Yes, sir.

Senator MUSKIE. As a matter of fact, with respect to direct sales, unless they are without recourse they are still obligations of the Government and in the Government's portfolio.

Mr. SCHULTZE. Correct.

Senator MUSKIE. To what extent do we sell directly without recourse? Any at all?

Mr. SCHULTZE. There are some sales. For example Export-Import Bank makes some sales without recourse, they are small in volume; but they make some sales.

Senator MUSKIE. So for all practical purposes, both in connection with direct sales, as well as participation sales, the basic obligation is still an obligation, a contingent liability.

Mr. SCHULTZE. That is correct.

Senator PROXMIRE. Now, just today, Senator Sparkman raised the point on page 6, lines 9 to 12, and you have this limitation which you explained as providing a restriction really on college housing loans, so they wouldn't exceed \$300 million?

Mr. SCHULTZE. You wouldn't be basically increasing the borrowing authority, significantly.

Senator PROXMIRE. Last Tuesday we had a very good presentation from Dr. Mullins, president of the University of Arkansas, on behalf of seven outstanding, the outstanding higher educational organizations in the country. He made a very, very strong appeal to this committee that we should do just what this part of the bill would prevent us from doing.

He said:

The President's proposal to sell off college housing bonds through a pool arrangement is in effect comparable to receiving early repayment on those bonds. The college housing legislation, as we have already noted, provides for the relending of such repayments in order to provide additional college housing. In view of the critical and increasing demand for additional student spaces, we have no choice but to urge strongly that any proceeds realized from the sale of college housing bonds in fiscal 1967 be made available in that fiscal year for additional college housing loans.

Now I understand the administration, of course, has to make some painful and tough choices in all these areas, but I want to make sure I know what we are doing.

This would mean that we would not be able to reloan the proceeds from sales on this basis?

Mr. SCHULTZE. The key point is, we would reloan no more than the amount the substantive committee, again roughly, has already provided in authorizing legislation. In other words, what we are doing is really replacing new borrowing authority by sale of participations. We are at the status quo, roughly with respect to the amount the college housing program is authorized to borrow from the Treasury.

Senator PROXMIRE. Would this place any new restraint in the way—

Mr. SCHULTZE. No, sir.

Senator PROXMIRE. If Congress decides they should go ahead with college housing?

Mr. SCHULTZE. No, sir, in other words the whole point of this bill is to keep the status quo, and the authorizing committee then can work its will as it may on the program itself.

Senator PROXMIRE. One of the arguments, it is true, there are two sides, one of the arguments in favor of this kind of procedure, both for SBA and the legislation before us, is that it means that Congress can act more rapidly. At least I thought that was it, because we didn't have to wait on appropriation acts. In view of the House amendment which brings everything under appropriations authorization, we lose that, don't we? In other words, the back door is shut. The House amendment provides that in all cases the Appropriations Committee has to give specific authorizations; isn't that correct?

Mr. SCHULTZE. For the total amount of participation sales.

Senator PROXMIRE. Not only where you have 3 or 3.5 percent subsidized loans but for all, not export-import, that is taken care of separately, but all of the other legislation?

Mr. SCHULTZE. That is correct.

Senator PROXMIRE. Well, that is a loss as well as a gain.

Senator DOUGLAS. The loss exceeds the gain.

Senator PROXMIRE. I think perhaps it does.

Senator SPARKMAN. Will the Senator yield while he is on that subject?

Senator PROXMIRE. Yes, sir.

Senator SPARKMAN. Going back to this cutting out of 1966 provision, how long is it going to take, assuming that Congress passes this bill, it goes into effect July 1, how soon will funds be available for sale or participation of college loans in order to replenish the supply?

Mr. SCHULTZE. I don't know exactly, Senator. It would depend on how long it takes to arrange the sale, and then determine the appropriate time to sell, in terms of scheduling it for the market.

But I see no reason why it could not be very early in the fiscal year, if necessary. Whether it could be July 1 or not is another question, but it could be very early in the fiscal year. I think Secretary Barr could speak better to this point.

Mr. BARR. The more promptly this legislation is considered, and hopefully passed, the more promptly we can get into the market. That is one reason for the urgency of this legislation. If it is passed, as I have already indicated, we would go immediately to the Appropriations Committee for the authority to transfer these assets to FNMA and move ahead right into the market as early as it is practicable.

Mr. SCHULTZE. May I point out, Senator, that as far as college housing is concerned, there is plenty of carryover in the college housing fund, even without new borrowing authority, so that the agency does not depend on the sale of assets early in fiscal 1967 in order to continue the program.

Senator SPARKMAN. You know, there are some of these programs that can be badly hurt by delay, and college housing is one of them.

They are trying to meet a deadline in construction to take care of the students in the fall. Small Business has been hurt for the last 6, 7, 8, and 9 months, by not having funds available for it.

I am just afraid of those lapses.

Mr. SCHULTZE. As I say, in the college housing program, there are plenty of funds to carry over into fiscal 1967, so there is no problem as far as that program is concerned with respect to this.

Senator SPARKMAN. Thank you, Senator Proxmire.

Mr. BARR. Mr. Chairman, may I correct the record at this point? Mr. Schultze and I have been informed by counsel that we have made an error, and as these proceedings are going to be watched by all bond counsels in the country, I would like the record to be corrected, if I may, sir.

In answer to Senator Bennett's question, and Senator Proxmire's question, we made the statement that these loans were just collateral in the FNMA account. Actually, title legally does pass from the agency to FNMA as trustee, so they are not merely collateral, FNMA holds title to these direct loans.

Senator PROXMIRE. The point that Senator Bennett and I were making would still be correct, in other words, this would still be in the hands of a Government agency, the Federal Government would still hold title and, therefore, in a sense it is collateral.

Mr. BARR. The reason I am correcting the record is that I don't want the lawyers to be confused as to precisely what happens.

Thank you.

Senator PROXMIRE. You have, Mr. Barr, an attachment here in which you give two examples. One example is SBA.

Mr. BARR. Yes, sir.

Senator PROXMIRE. I want to be sure I understand correctly, we passed the SBA participations bill.

Mr. BARR. Yes.

Senator PROXMIRE. That bill is separate and distinct. That bill, as I understand it, was approved by the House committee and is now pending, and I hope it will be acted on favorably by the House soon and be enacted into law; is that correct?

Mr. BARR. That is correct.

Senator PROXMIRE. That is separate and distinct from this, and that would permit sales of participations by Small Business.

You are giving this as an example, not meaning that the possibility of having participations for SBA is contingent on passage of this bill?

Mr. BARR. No, sir.

Senator PROXMIRE. That is all, Mr. Chairman.

Senator SPARKMAN. Senator Bennett, any further questions?

Senator BENNETT. I just had one more question. Are these participations eligible for the banks to use as reserves?

Mr. BARR. Senator, they would not be eligible by a bank for use as a reserve. It is a question as to whether or not the Federal Reserve Board will have to pass on the eligibility of this paper for rediscount use and the Comptroller of the Currency will have to pass on the eligibility of this paper as legal investments for national banks. But they are not available for reserves.

Reserves of the national banks and members of the Federal Reserve System are held in cash in the Federal Reserve bank.

Senator BENNETT. I have just one other thing. There was a discussion, of which I was not a part, as to whether or not the Export-Import Bank had suffered any loss in the sale of its assets. There is some information here in our hearings on October 7, 1965, where they set up original pool, in which Mr. Schultze said, with respect to the audit of the Export-Import Bank for fiscal year 1962, that in that year they had a direct loss of \$3.9 million in the sale. That loss occurred in the difference between what the Government would have received if they had been held until maturity and when they were sold.

Mr. SCHULTZE. All right, in terms of the rate on participation versus the rate on the loan, the interest they were getting, there was no loss.

Senator BENNETT. This loss was because of their premature or early disposition.

Thank you, Mr. Chairman.

Senator PROXMIRE. May I just ask, is there in your judgment any economic effect, any economic difference between a direct Treasury borrowing on the one hand and participations on the other?

Mr. SCHULTZE. I would say there is very little.

Senator PROXMIRE. From an economic standpoint, of course the administrative budget has all kinds of weaknesses. But from the effect on the economy it makes no difference if you handle it with a \$1.8 billion deficit or don't pass the bill and have a deficit of \$6.5 billion, or whatever it is—

Mr. SCHULTZE. In this context, you are quite right.

Senator PROXMIRE. Except that it is a happier situation for us to have \$1.8 billion deficit.

Mr. SCHULTZE. Right.

Senator PROXMIRE. Thank you.

Senator SPARKMAN. Thank you very much, gentlemen.

Senator BENNETT. Thank you.

Senator SPARKMAN. Have you had a citizens advisory group to work with you on that?

Mr. BARR. It is an Advisory Committee on Financial Assets.

(The committee membership was later supplied, as follows:)

Chairman of the Committee is Sidney Weinberg, partner in Goldman Sachs, New York City. Other members are: Robert McKinney (Vice Chairman) publisher, Santa Fe, N. Mex.; Jamar Adcock, Monroe, La.; Howard Bowen, president, University of Iowa, Iowa City, Iowa; Morris D. Crawford, Jr., president, Bowery Savings Banks, New York City; Thad Holt, Birmingham, Ala.; George Jenkins, vice president, Metropolitan Life Insurance Co., New York City; David M. Kennedy, chairman, Continental Illinois National Bank & Trust Co., Chicago, Ill.; Cameron McElroy, Marshall, Tex.; James O'Leary, Life Insurance Association of America, New York City; Emil J. Pattberg, chairman of the board, the First Boston Corp., New York City; and Rudolph A. Peterson, president, Bank of America, San Francisco, Calif.

Senator SPARKMAN. These are bankers?

Mr. BARR. A combination of bankers, investment bankers, mutual savings bankers, savings and loan people, and educators. This is very technical legislation and it took a month and a half to really make sure that we had not made any technical mistakes. As you can see, we made one in accepting the last amendment.

Senator SPARKMAN. Was the committee or group or whatever you called it in favor of this legislation?

Mr. BARR. We consulted them about the financial and technical aspects of the bill. The committee made several suggestions which we adopted. They agreed that the legislation was well conceived from a financial and technical standpoint.

Senator SPARKMAN. Did they go along with you?

Mr. BARR. Yes, sir; from a technical standpoint. They were technical advisers, and we did not specifically ask them for an overall endorsement.

Senator PROXMIRE. Let me ask, Does that House amendment giving the Appropriations Committee the authority over all of this participation action, apply to the SBA? It wouldn't apply to export-import, would it?

Mr. SCHULTZE. Anything that goes through FNMA.

Senator PROXMIRE. Small Business goes through FNMA, but we have this separate legislation, which stands on its own feet.

Mr. BARR. We will give you an answer to that.

(The following information was supplied.)

Since this legislation amends the Federal National Mortgage Charter Act, it will be applicable, if amended as we have requested, to all sales of participations by the Federal National Mortgage Association after June 30, 1966. This will be true of all agencies, including the Small Business Administration, whose paper is placed in trust for the sale of participations by the Federal National Mortgage Association. It is planned, however, that SBA will, in view of the time factor, arrange a participation sale in fiscal year 1966 under the authority provided in S. 2499. The sales of participations by the Export-Import Bank will, of course, not be affected by this legislation provided they do not go through FNMA.

Senator PROXMIRE. Thank you very much.

Senator SPARKMAN. The committee will stand adjourned subject to the call of the chairman.

(Whereupon the committee adjourned subject to the call of the chairman.)

PARTICIPATION SALES ACT OF 1966

THURSDAY, APRIL 28, 1966

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to notice, at 10:07 a.m., in room 5302, New Senate Office Building, Senator A. Willis Robertson, presiding.

Present: Senators Robertson, Sparkman, Douglas, Proxmire, Muskie, McIntyre, Mondale, Bennett, and Tower.

The CHAIRMAN. The committee will please come to order.

We regret that we had to call a meeting of this committee for the further consideration of a proposal to issue participating certificates, because the money market is getting very tight, I am sure everybody knows. It was in the paper this morning that the Treasury was forced to sell at a discount an 18-month note that would bear almost 5 percent interest.

Everybody knows that on bonds we have a limit of 4.5 percent.

Everybody knows that money is tight in the banks and savings and loan and mutual banks and that the Small Business Administration urgently needs some money to make loans. Other agencies need the money.

We know, of course, that if the Federal Government right now should up the 4.5 percent interest rate, which it will have to do if we don't give them any opportunity to get money without doing it, that could touch off a very harmful situation.

Recognizing that fact, I wish to first read into the record at this point a telegram that I have just received from Dr. Charles E. Walker, executive vice president, American Bankers Association:

Supplementing and clarifying my letter to you of April 26 the American Bankers Association believes that H.R. 14544 with proposed amendments offers adequate congressional safeguards for use of the authority, and we therefore interpose no objection to the passage of the bill.

We will, of course, indicate in the record at an appropriate time the amendments to which that telegram refers.

The letter to which he refers appears in Tuesday's proceedings.

At this point, without objection, I will place in the record Senator Muskie's bill, S. 3283.

(The bill follows.)

89TH CONGRESS
2D SESSION

S. 3283

IN THE SENATE OF THE UNITED STATES

APRIL 27, 1966

Mr. MUSKIE introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Participation Sales Act
4 of 1966".

5 SEC. 2. (a) Section 302 (c) of the Federal National
6 Mortgage Association Charter Act is amended—

7 (1) by inserting "(1)" immediately following
8 "(c)";

9 (2) by inserting after "undertakings and activities"

2

1 a comma and "hereinafter in this subsection called
2 'trusts','";

3 (3) by striking out the words "offered to it by the
4 Housing and Home Finance Agency or its Adminis-
5 trator, or by such Agency's constituent units or agencies
6 or the heads thereof, or any first mortgages in which
7 the United States or any agency" in the first sentence
8 thereof and by inserting "and other types of securities,
9 including any instrument commonly known as a secu-
10 rity, hereinafter in this subsection called 'obligations,'
11 in which the United States or any executive department,
12 agency,";

13 (4) by striking out the third sentence thereof and
14 substituting therefor the following: "Participations or
15 other instruments issued by the Association pursuant to
16 this subsection shall to the same extent as securities
17 which are direct obligations of or obligations guaranteed
18 as to principal or interest by the United States be deemed
19 to be exempt securities within the meaning of laws
20 administered by the Securities and Exchange Commis-
21 sion."; and

22 (5) by striking out the fourth sentence thereof.
23 (b) Section 302 (c) of such Act is further amended by
24 adding the following:

25 "(2) Subject to the limitations provided in paragraph

1 (4) of this subsection, the head of any executive depart-
2 ment, agency, or instrumentality of the United States, here-
3 inafter in this subsection called the "trustor", is authorized
4 to set aside a part or all of any obligations held by him and
5 subject them to a trust or trusts and, incident thereto, shall
6 guarantee to the trustee timely payment thereof. The trust
7 instrument may provide for the issuance and sale of bene-
8 ficial interests or participations, by the trustee, in such obli-
9 gations or in the right to receive interest and principal col-
10 lections therefrom; and may provide for the substitution or
11 withdrawal of such obligations, or for the substitution of cash
12 for obligations. The trust or trusts shall be exempt from all
13 taxation. The trust instrument may also contain other appro-
14 priate provisions in keeping with the purposes of this subsec-
15 tion. The Association may be named and may act as trustee
16 of any such trusts and, for the purposes thereof, the title to
17 such obligations shall be deemed to have passed to the
18 Association in trust: *Provided*, That the trust instrument
19 shall provide that custody, control, and administration of
20 the obligations shall remain in the trustor subjecting the
21 obligations to the trust, subject to transfer to the trustee
22 in event of default or probable default, as determined by
23 the trustee, in the payment of principal and interest of the
24 beneficial interests or participations. Collections from obli-
25 gations subject to the trust shall be dealt with as provided

4

1 in the instrument creating the trust. The trust instrument
2 shall provide that the trustee will promptly pay to the
3 trustor the full net proceeds of any sale of beneficial interests
4 or participations to the extent they are based upon such
5 obligations or collections. Such proceeds shall be dealt
6 with as otherwise provided by law for sales or repayment of
7 such obligations. The effect of both past and future sales
8 of any issue of beneficial interests or participations shall be
9 the same, to the extent of the principal of such issue, as
10 the direct sale of the obligations subject to the trust. Any
11 trustor creating a trust or trusts hereunder is authorized to
12 purchase, through the facilities of the trustee, outstanding
13 beneficial interests or participations to the extent of the
14 amount of his responsibility to the trustee on beneficial
15 interests or participations outstanding, and to pay his proper
16 share of the costs and expenses incurred by the Associa-
17 tion as trustee pursuant to the trust instrument, and for
18 these purposes may use any appropriated funds or other
19 amounts available to him for the general purposes or pro-
20 grams to which the obligations subjected to the trust are
21 related.

22 “(3) When any trustor guarantees to the trustee the
23 timely payment of obligations he subjects to a trust pur-
24 suant to this subsection, and it becomes necessary for such
25 trustor to meet his responsibilities under such guaranty, he

1 is authorized to fulfill such guaranty by using any appro-
2 priated funds or other amounts available to him for the
3 general purposes or programs to which the obligations sub-
4 jected to the trust are related.

5 “(4) Beneficial interests or participations shall not be
6 issued for the account of any trustor in an aggregate princi-
7 pal amount greater than is authorized with respect to such
8 trustor in an appropriation Act. Any such authorization
9 shall remain available until used.

10 “(5) The Association, as trustee, is authorized to issue
11 and sell beneficial interests or participations under this sub-
12 section, notwithstanding that there may be an insufficiency
13 in aggregate receipts from obligations subject to the related
14 trust to provide for the payment by the trustee (on a timely
15 basis out of current receipts or otherwise) of all interest or
16 principal on such interests or participations (after provision
17 for all costs and expenses incurred by the trustee, fairly
18 prorated among trustors). Whenever the issuance of an
19 aggregate principal amount is authorized pursuant to para-
20 graph (4) of this subsection, such an authorization in an
21 appropriation Act shall establish on the books of the Treas-
22 ury as appropriations such sums as may be necessary from
23 time to time to enable the trustor to pay the trustee such
24 insufficiency as the trustee may require on account of out-

6

1 standing beneficial interests or participations. Such trustor
2 shall make timely payments to the trustee from such appro-
3 priations, subject to and in accord with the trust instrument."

4 SEC. 3. (a) Section 305 (c) of the Federal National
5 Mortgage Association Charter Act is amended by deleting
6 "by \$450,000,000 on July 1, 1966,".

7 (b) Section 401 (d) of the Housing Act of 1950 is
8 amended by deleting "1968:" immediately preceding the
9 first proviso and by substituting therefor "1965, and 1967
10 and 1968:".

11 SEC. 4. (a) Section 303 (c) of title III of the Higher
12 Education Facilities Act of 1963 is amended by striking out
13 the first nine words in the second sentence and substituting
14 therefor the following: "For the purpose of making pay-
15 ments into the fund established under section 305".

16 (b) Title III of the Higher Education Facilities Act
17 of 1963 is further amended by adding after section 304 the
18 following new section:

19 "REVOLVING LOAN FUND

20 "SEC. 305. (a) There is hereby created within the
21 Treasury a separate fund for higher education academic
22 facilities loans (hereafter in this section called "the fund")
23 which shall be available to the Commissioner without fiscal-
24 year limitation as a revolving fund for the purposes of this
25 title. The total of any loans made from the fund in any

1 fiscal year shall not exceed limitations specified in appropria-
2 tion Acts.

3 “(b) (1) The Commissioner is authorized to transfer
4 to the fund available appropriations provided under section
5 303 (c) to provide capital for the fund. All amounts
6 received by the Commissioner as interest payments or
7 repayments of principal on loans, and any other moneys,
8 property, or assets derived by him from his operations in
9 connection with this title, including any moneys derived
10 directly or indirectly from the sale of assets, or beneficial
11 interests or participations in assets, of the fund, shall be
12 deposited in the fund.

13 “(2) All loans, expenses, and payments pursuant to
14 operations of the Commissioner under this title shall be paid
15 from the fund, including (but not limited to) expenses and
16 payments of the Commissioner in connection with the sale,
17 under section 302 (c) of the Federal National Mortgage
18 Association Charter Act, of participations in obligations
19 acquired under this title. From time to time and at least
20 at the close of each fiscal year, the Commissioner shall pay
21 from the fund into the Treasury as miscellaneous receipts in-
22 terest on the cumulative amount of appropriations paid out
23 for loans under this title or available as capital to the fund,
24 less the average undisbursed cash balance in the fund during
25 the year. The rate of such interest shall be determined

1 by the Secretary of the Treasury, taking into consideration
2 the average market yield during the month preceding such
3 fiscal year on outstanding Treasury obligations of maturity
4 comparable to the average maturity of loans made from the
5 fund. Interest payments may be deferred with the approval
6 of the Secretary of the Treasury, but any interest payments
7 so deferred shall themselves bear interest. If at any time
8 the Commissioner determines that moneys in the fund exceed
9 the present and any reasonably prospective future require-
10 ments of the fund, such excess may be transferred to the
11 general fund of the Treasury.”

12 SEC. 5. Section 338 (c) of the Consolidated Farmers
13 Home Administration Act of 1961 is amended by striking in
14 the second sentence “and (8)” and inserting in lieu thereof
15 “(8) section 8 of the Watershed Protection and Flood Pre-
16 vention Act, as amended (16 U.S.C. 1006a) ; (9) section
17 32 (e) of the Bankhead-Jones Farm Tenant Act, as amended
18 (7 U.S.C. 1011) ; and (10)” ; and by inserting in the fifth
19 sentence after “title,” the following: “section 8 of the Water-
20 shed Protection and Flood Prevention Act, as amended, and
21 section 32 (e) of the Bankhead-Jones Farm Tenant Act, as
22 amended,”.

23 SEC. 6. Nothing in this Act shall be construed to repeal
24 or modify the provisions of section 1820 (e) of title 38,

1 United States Code, respecting the authority of the Adminis-
2 trator of Veterans' Affairs.

3 SEC. 7. Paragraph (7) of section 8 of the Federal
4 Credit Union Act (12 U.S.C. 1757) is amended to read:

5 " (7) to invest its funds (A) in loans exclusively to
6 members; (B) in obligations of the United States of
7 America, or securities fully guaranteed as to principal
8 and interest thereby; (C) in accordance with rules and
9 regulations prescribed by the Director, in loans to other
10 credit unions in the total amount not exceeding 25 per
11 centum of its paid-in and unimpaired capital and sur-
12 plus; (D) in shares or accounts of savings and loan
13 associations, the accounts of which are insured by the
14 Federal Savings and Loan Insurance Corporation; (E)
15 in obligations issued by banks for cooperatives, Federal
16 land banks, Federal intermediate credit banks, Federal
17 home loan banks, the Federal Home Loan Bank Board,
18 or any corporation designated in section 101 of the
19 Government Corporation Control Act as a wholly owned
20 Government corporation; or in obligations, participa-
21 tions, or other instruments of or issued by, or fully
22 guaranteed as to principal and interest by, the Federal
23 National Mortgage Association; or (F) in participation
24 certificates evidencing beneficial interests in obligations,

10

1 or in the right to receive interest and principal collections
2 therefrom, which obligations have been subjected by one
3 or more Government agencies to a trust or trusts for
4 which any executive department, agency, or instrumen-
5 tality of the United States (or the head thereof) has
6 been named to act as trustee;”

7 SEC. 8. The Secretary of the Treasury, in consultation
8 with heads of agencies of the United States carrying on
9 direct loan programs, shall conduct a study, in such manner
10 as he shall determine, on the feasibility, advantages, and
11 disadvantages of direct loan programs compared to guaran-
12 teed or insured loan programs and shall report his findings
13 together with specific legislative proposals to the Congress
14 not later than six months after the effective date of this
15 Act. There are authorized to be appropriated such sums
16 as necessary for the purpose of this section.

17 SEC. 9. The Federal National Mortgage Association is
18 authorized during fiscal year 1966 to sell (1) additional
19 participations in the Government Mortgage Liquidation
20 Trust, and (2) participations in a trust to be established by
21 the Small Business Administration, each without regard
22 to the provisions of paragraph (4) of section 302 (c) of
23 the Federal National Mortgage Association Charter Act,
24 as added by this Act.

The CHAIRMAN. I will ask permission to put in the record endorsement of the American Legion through Commander James.

Also a letter addressed to Mr. Patman from the national commander of the Disabled American Veterans.

Also endorsement from the Amvets, National Headquarters.
(The material referred to follows:)

THE AMERICAN LEGION,
Washington, D.C., April 27, 1966.

HON. WRIGHT PATMAN,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.*

DEAR MR. PATMAN: As national commander of the American Legion, I have been asked to comment on H.R. 14544, the Participation Sales Act of 1966.

I am advised that this bill would authorize Federal agencies administering credit programs to enter into agreements with the Federal National Mortgage Association, whereby that Association would sell to private investors interest-earning shares, known as participation certificates, based upon a pooling of Government loan certificates. I am told that this plan, in effect, would serve to substitute private for public credit.

The Veterans' Administration has, since 1964, used this technique to sell a substantial number of its veterans' housing mortgages, under a similar authorization contained in Public Law 88-560. H.R. 14544 would encompass this authorization and extend it to include certain other Federal agencies.

The impact of the proposed legislation upon present VA operations is the primary concern of the American Legion. It is our understanding that the sale of participation certificates under the provisions of this bill would not give the purchasers any control over the programs under which the loans were made. The veteran would continue to deal directly with the Veterans' Administration, the agency which administers his housing loan program.

We have been assured by the Veterans' Administration that the provisions of this bill will favorably affect the operations of the VA. Accordingly, the American Legion favors the enactment of H.R. 14544.

Sincerely yours.

L. ELDON JAMES, *National Commander.*

DISABLED AMERICAN VETERANS,
Washington, D.C., April 20, 1966.

HON. WRIGHT PATMAN,
*Chairman, Committee on Banking and Currency, House of Representatives,
Washington, D.C.*

DEAR CONGRESSMAN PATMAN: The Participation Sales Act of 1966 will encourage greater use of this country's private capital assets in financing education and the general welfare through loan programs. One of the major lending programs is that authorized by veterans legislation.

The Disabled American Veterans (DAV) supports only that legislation which is designed for the benefit of the disabled veteran. Recognizing that adequate financing is a foundation of any continuing program, a review of this act shows that it warrants our endorsement.

The provisions of this act have been tested and proved by a Veterans' Administration lending program in which numerous members of the DAV have participated. This includes guaranteed loans and direct loans to disabled veterans, and the special program for partial Federal financing of special homes for certain disabled veterans. There are part of one of Government's largest lending programs, administered by the VA, which has sold almost \$1 billion loans to private capital. The Participation Sales Act of 1966 would extend the same privilege of "pooling" loans to other Federal agencies.

We find that the new act in no way changes the veterans' program administration, and that the VA will continue to deal directly with the veteran. It provides selling of mortgage loans through the Federal National Mortgage Association, which acts as marketing agent for the loans to private capital. This, in turn, permits use of the capital from sales of the loans. The VA experience has shown that this practice has allowed loans to thousands of additional veterans.

The DAV support of the President's policy of defending freedom against communism in Vietnam is unwavering, as is the support of necessary expenditures to

fight the war. As veterans who have suffered at the hands of enemies who would deny our freedom, we best understand that the primary responsibility of Government is security of our country.

Since the provisions of this act strengthen the method of financing by our Government, and encourages private enterprise participation in the loan programs, it is consonant with the aims of the DAV.

The goals of the DAV remain consistent: benefits for those who gave so much in service to their country. Adequate financing of those benefits is essential. Therefore, I urge you to support this legislation and its passage by Congress.

Sincerely,

CLAUDE L. CALLEGARY,
National Commander.

AMVETS NATIONAL HEADQUARTERS,
Washington, D.C., April 22, 1966.

HON. WRIGHT PATMAN,
*Committee on Banking and Currency,
House of Representatives, Washington, D.C.*

DEAR MR. PATMAN: The President of the United States has called for passage of the Participation Sales Act of 1966, which, if enacted into law, will permit greater use of private capital assets in financing education and general welfare through loan programs.

One of the major Government lending programs is authorized by the loan provisions of veterans' legislation. The validity of the principle embraced in this proposed law has already been tested and proved by this veterans' lending program. Since 1964, nearly \$1 billion in these loans have been "pooled" and marketed to private financial institutions through the Federal National Mortgage Association (FNMA). This has permitted thousands of extra loans to veterans without extra Treasury borrowing.

The act would permit the same practice by other Federal agencies, in permitting "pooling" to market Government-backed loans to private capital. The officers of AMVETS have reviewed the proposed legislation and find that its passage will bring absolutely no change in the management of the VA guaranteed or direct loans to veterans on homes and businesses. The VA will continue to be the administering agency, and the veteran, as always, will deal with the VA.

We also find that, under the proposed law, Congress will retain full control of appropriations, and in many areas congressional control will be strengthened. No veterans benefits funds can be diverted elsewhere.

The members of this organization fully recognize that fighting a godless enemy in Vietnam is costly, but necessary. It cost is nothing compared to the human suffering if freedom is lost. This organization is on record strongly supporting the necessary expenditures for the Vietnam conflict and the President's policy of resisting the Communist conspiracy that has threatened to bury us. As veterans, we recognize that a primary responsibility of government is security of our country.

We also stand firmly on the long-established principle that the veterans of this country are fully entitled to the benefits provided under present laws, and more. For without those who respond to the call to colors, there would be no freedom, no United States as we know it.

This organization is seeking liberalized expenditures in compensation for those who suffered wounds in wars, bigger pensions for those veterans who are in need, and greater aid to the widows and children of those who served. We further seek strengthening of veterans preference in Government jobs, another benefit granted veterans by the latest GI bill and previous veterans legislation.

Recognizing the need for adequately financing veterans benefits, including those rightfully extended to millions of veterans under the new GI bill passed by this Congress, and the need for financing other programs improving the general welfare, the AMVETS endorses the principles embodied in the Participation Sales Act of 1966.

The act obviously enhances and improves Government's method of financing, encouraging a greater partnership of private enterprise and Government. This improvement and this partnership is compatible with the goals of this organization, and we strongly urge its passage.

Sincerely,

RALPH E. HALL, *National Commander.*

The CHAIRMAN. We gave as much notice as the time would permit to everybody that we anticipated would want to appear either for or against this proposal, and we are glad that we have with us today representatives of the Farmers Union, which wants to testify, and the Federal National Mortgage Association. We will be glad to hear them.

If anybody else has since come in, we will be glad to hear them.

Mr. Clerk, please call the first witness.

Mr. HALE. Mr. McDonald from the National Farmers Union is the first witness.

The CHAIRMAN. Mr. McDonald, we are pleased to have you. You represent a fine lodge and a fine organization. We are always pleased to hear its views on matters affecting the farmers. I assume that you speak primarily for farmers, do you not?

STATEMENT OF ANGUS McDONALD, DIRECTOR OF RESEARCH, NATIONAL FARMERS UNION

Mr. McDONALD. That is correct, Mr. Chairman.

Let me begin by stating my name—Angus McDonald, director of research, National Farmers Union.

I have been with the organization 18 years. I have a rather extensive farm background. I grew up on a farm in eastern Oklahoma. I farmed as early as the 1920's during the agricultural depression.

I have owned farms in New York State, in Maryland, and in Oklahoma. I finally liquidated my agricultural assets in 1958, we felt perhaps wrongly, Mr. Chairman, because of some of the events and policies in Washington. Perhaps we were incorrect.

But I wanted to indicate that I have had some experience and knowledge of agriculture.

I was in the Soil Conversation Service for 7 years, 1935 to 1942.

I was a free-lance writer for some years, writing primarily on agricultural matters. I was farm editor for the New Republic magazine for the years 1946 to 1948, when I left and went to work for the Farmers Union in February of 1948, and I have been in this position with this fine organization ever since.

First, Mr. Chairman, I would like to ask permission to put this document into the record. I am not going to read it. I had some copies distributed. It is a brief memorandum on the Participation Act of 1966.

The CHAIRMAN. Without objection, it may be incorporated.

(The memorandum referred to follows:)

FARMERS UNION MEMORANDUM ON H.R. 14544, THE PARTICIPATION SALES ACT OF 1966

1. The purpose of this legislation is to get the Federal Government out of the lending business. According to Budget Director Schultze, the Federal Government should not act as a bank; all Federal lending programs and assets should be taken out of the Federal Government and turned over to private business.

2. The Federal National Mortgage Association Charter Act is amended and the Association is given authority to issue "participations" which shall be guaranteed as to principal and interest by agencies of the United States.

3. The head of any executive department, agency, or instrumentality of the United States is authorized to set aside a part or all of any obligations held by him. The agency "shall guarantee" to the trustee timely payments thereof.

4. The "trustee" which would issue the "particiuations" is the Federal National Mortgage Association which gets investment bankers to handle the paper and sell the participations on the public money market. The bill indicates that all of the funds raised by the sale of the participations shall be turned over to the agency or trustor. The trustee is the mortgage association commonly referred to as "Fannie Mae." These are the principal provisions of the bill.

5. Here is what will happen: The loan agency which might be Farmers Home, Housing, or Small Business, or any one of the lending agencies, must, we believe issue these participations if the administration so desires. The language says specifically of the agency "he is authorized to set aside all or part of any obligations held by him." We believe the effect of this language will be mandatory.

6. First, the lending agency will turn over the loan papers to "Fannie Mae" and as a result participations will be issued. The New York banks and others will underwrite them, "Fannie Mae" having decided that they are sellable and worth their face value. Interest rates or effective yields, we assume, will be agreed on by "Fannie Mae" and the bank and other underwriters.

7. Example: The agency and Fannie Mae decide to lump together papers held by farmers homes, small business, and housing agencies, totaling, say \$1,500,000, the participations are then sold on the public market for 6 percent plus a servicing fee. We do not believe that the rate will be much lower, since 90-day Treasury bills now stand at 4.7 percent, and prime securities are around 5 to 5½ percent. Suppose that the loan paper held by the agency on which the participations are based, average 4 percent. It is evident that the Treasury will have to make up the difference. In other words, there will be a subsidy of 2 percent.

8. Aside from costing the Federal Government additional money which the banks will pocket, the issuance of guaranteed paper will have an adverse effect on the home mortgage institutions. A banker would be loath to lend money for housing, tractors, etc., if all he had to do was pick up the phone and buy a participation at 5½ percent which was guaranteed and which could be sold or held at his discretion.

9. Savings and loan associations under the law are not allowed to share in these participations; however, to compete with this new money market they will have to raise their interest rates or else go out of business and the general effect will be, of course, together with the other operations mentioned, to raise interest rates all along the line.

10. A final point should be made. Hometown bankers and even relatively large banks are having a tough time because of the policies of the Federal Reserve Board. They are having to pay a 4½-percent discount rate and are in competition with institutional money lenders who, under the ruling of the Board, may get 5½ percent on time deposits. Another factor is the fact that reserves in the banks have reached a minus figure. The Federal Reserve Board has been selling securities on the open market thus decreasing liquid reserves of the banks. The result has been to bring about a very tight, high interest situation.

The CHAIRMAN. Go right ahead in your own way.

Mr. McDONALD. I also, Mr. Chairman, would like to have a letter dated April 21 of this year to the President of the United States over the signature of our newly elected national president, Tony Dechant, put into the record.

The CHAIRMAN. Without objection.
(The letter referred to follows:)

FARMERS UNION,
Washington, D.C., April 21, 1966.

HON. LYNDON B. JOHNSON,
The President of the United States,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: We are very much concerned about H.R. 14544 which would increase interest rates to farmers already overburdened by excessive interest charges. The Federal Government should lead the way toward decreasing interest rates, not increasing them.

We recognize that you are seeking to avoid a tax increase but feel that a small increase in the Federal deficit or an increase in taxes is preferable to adding one-half of a percent to interest charges which are at an all-time high.

All interest rates will be affected by this proposal to turn over all Government-sponsored programs to private moneylenders. Over the years the cumulative effect of H.R. 14544 will add millions of dollars to the amount consumers of credit will pay. It will result in increased costs for all consumers since interest charges must be added to the cost of doing business and in turn passed on to the consumer. It will result in decreased farm income since the farmer cannot pass on his costs to those who purchase food and fiber.

We respectfully urge that you seek other ways to solve your budgetary problem. We must regretfully oppose this inflationary interest proposal in every way possible.

Respectfully,

TONY T. DECHANT, *President.*

Mr. McDONALD. I have a few comments on this legislation.

I would like to indicate first, partly in response to a comment of the Senator from Utah, Mr. Bennett, in regard to the organizations affected by this legislation.

Mr. Chairman, I call your attention to a list of organizations who would be affected on page 113 of the hearings before a subcommittee of the Committee on Banking and Currency, U.S. Senate, on S. 249. The date of these hearings was October 7 to 11, 1965.

It appears, Senator Bennett, that Senator Tower from Texas requested that this material be inserted into the record in a letter addressed to the staff director of this committee.

Senator BENNETT. Yes, I have a copy of it, and I know of the list. What I was trying to get yesterday was an official list.

I was trying to get an official statement of the Treasury of all the agencies that might be affected. I am not sure this is all. There may be others.

Mr. McDONALD. I was going to comment on that.

Now, I notice in this list, Senator, that the Commodity Credit Corporation is not included, and that certainly is an agency I believe in my interpretation of this bill that could be affected. So it obviously is not a complete list.

Senator BENNETT. Yes.

Mr. McDONALD. I would like to direct my remarks primarily to the agricultural agencies that would be affected, naturally, representing a farm organization.

We find in this list here which I referred to, Farmers Home Administration, REA, Crop Insurance, Bank for Co-Ops, Intermediate Credit Banks, Farm Credit Administration, Federal Land Banks, Bureau of Reclamation, and, as I indicated—

The CHAIRMAN. Now, with all due deference, you appear before us as an expert in farm matters, and you are appearing to object. Now, will you qualify as an expert in all financial matters, or are you still going to testify just about the farmers?

I just want to know what scope you plan to occupy here today.

You said you had been 18 years with the Farmers Union, and you grew up in Oklahoma. Very fine. You came to appear because you thought this would not be good for the loans made to farmers. Are you going to confine yourself to the farmers, or are you going to qualify as an expert on all these agencies that handle \$7 billion of loans?

Mr. McDONALD. No, sir; I am not going to qualify as an expert, really, Senator, on anything.

The CHAIRMAN. Well, thank you very much.

Mr. McDONALD. With my limited understanding I am going to make some comments on what I think this bill might do.

Now, first of all, it seems clear to me that on page 3, line 1, of the House bill, that all these agencies are affected. That seems very clear—that all of the executive departments, agencies, or instrumentalities of the United States come under this bill.

I would like to begin by commenting on the Farmers Home Administration, which we think is a very fine agency, and in regard to what happens, what is happening and has been over the years, in this agency in regard to farm loans.

Now, this is an insured loan program, and the farmer will get approval of a loan from FHA and the bank will insure it. So it is very beneficial to the farmer, very beneficial to the bank. It is a local community matter in many instances. I understand that the FHA deals with 4,000 country banks.

Furthermore, the relationship between the farm and the local bank is such that the banker often will make additional loans which are not insured in regard to getting the farmer through a rough year, in regard to buying a tractor, in regard to the general operation of his farm.

This FHA guaranteed loan is a kind of a bulwark for the local bank which also establishes credit for the farmer. And often it is a family matter, because the banker, with a relationship with one farmer in credit, perhaps his relatives, his friends, his neighbors, develops a good community relationship there.

Under my interpretation of this bill I think that the country bank would be short circuited. I think that the farmer would request FHA, go to the Farmers Home Administration for a loan, and the local FHA man would look into the character of the farmer, his assets, his probability of being able to repay the loan, and he will say, "Well, for all practical purposes you are good for a loan."

Then, instead of going to the country bank, the FHA would check with the National Mortgage Association, the Federal Mortgage Association, called "Fannie May," and say, "Well, I have got a bunch of people here who have good credit, and I think they are good people who need some money. Can you arrange some participation so we can get the money out here?"

And Fannie May will look the situation over, and the underwriter, or whoever is working with Fannie May, such as the First Boston Corp. of New York, which is involved, I believe, and numerous other large banks, and, of course, these loans of FHA will be lumped together with many other loans from many other agencies so the identity of the original borrower is lost.

It would remove, it seems to us, one step by this legislation. It would take it out of the community and be adverse to the interest of the local community and the country banker.

Furthermore, it takes, it seems to me, Mr. Chairman, the power of decision to some extent out of the Farmers Home Administration, because the ultimate decision on whether this money would be available or not would be in the Fannie May Corporation.

So they might very well reach a point where they felt like they had sold all the participations that they wanted to sell about that time,

and they might very well say, when these agencies came up with groups of loans, well, we can't do it now because of certain situations in the national market.

As you know, of course, you can't dump a lot of things on the market all at once. You have to deal with these matters from day to day and adjust your financial operations to the market.

Now, that is my second point, Mr. Chairman. Another point which I would like to refer to is that under this bill subsidies would be increased.

Now, I am referring primarily to the agricultural subsidies.

I have in my hand a document, "Budget Estimates for the U.S. Department of Agriculture, Fiscal Year Ending June 30, 1967." On page 177 and page 178 we find the amounts of money, Mr. Chairman, which are loaned, and they are itemized.

For example, on page 178 you will find \$122,892,000 in building loans. You will find \$1.7 million in building loans for the elderly. You will find other categories. The interest rate is 3 percent.

On the previous page there is another list there.

My point is that there is a wide variation in the ceilings. That is indicated in this document here that I have in my hand, "Special Analysis, Bureau of the Budget of the United States, Fiscal Year 1967." And on page 62 of this document there is quite an extensive list of the interest rates and maturities for major active credit programs classified by agency or program, December 1965.

You find listed under "Agriculture" that the interest rates vary from 2 percent to 6 percent.

You will find, for example:

Commodity Credit Corporation interest rates vary from 3.5 to 4 percent. Rural Electrification is 2 percent.

And so on. There are others too numerous to read.

Mr. Chairman, I am trying to bring out the point that there is a wide variation. And I suggest that any increase in interest rates on these programs, these subsidized programs—of course, we are heartily for and have testified many times for subsidy for relief for slum housing and various programs which burden the taxpayers, and we think that the taxpayers are perfectly willing, as evidenced by legislation passed by the United States, to support these programs and to take money from the taxpayers and to give it to help the poverty program which the President is pushing, and so forth and so on.

The CHAIRMAN. Well, may I interrupt to ask you a question so that we can get on to the nub of your opposition? Aren't you opposing this program because you believe it will result in increasing the interest rate to farmers?

Mr. McDONALD. Primarily.

The CHAIRMAN. All right. That is the decision of your president.

Mr. McDONALD. My—

The CHAIRMAN. Let me read your president's statement to that effect. I have just gotten it:

We recognize that you are seeking to avoid a tax increase but feel that a small increase in the Federal deficit or an increase in taxes is preferable to adding one-half of 1 percent to interest charges which are at an all-time high.

All interest rates will be affected by this proposal to turn over all Government-sponsored programs to private money lenders.

Well, the whole letter will be in the record.

Now, let me ask you this: Do you want to get the \$477 million for direct loans for the Federal Farm Home Administration or not? Are you in favor of that or not?

Mr. McDONALD. Yes, sir.

The CHAIRMAN. All right. You favor it?

Mr. McDONALD. Insured loans.

The CHAIRMAN. Did you read in the paper this morning that even on an 18-month note it had to be sold at a discount that yielded 4.9-some percent rate of interest?

Mr. McDONALD. I did not read that. No, sir.

The CHAIRMAN. Well, that was in there.

Do you know how you can get any bank or any private institution or any individual to lend you money for 20, 25, or 30 years at 4.5 percent?

Mr. McDONALD. I don't know.

The CHAIRMAN. All right. Do you know that the law authorizes these loans at from 3 to 5 percent for the direct loans and at 2¾ to 5¾ for the guaranteed loans? Do you know that?

Mr. McDONALD. I believe that is in this table.

The CHAIRMAN. All right. The administration tells us that it won't have the money to let you have \$477 million for these loans unless we permit them to sell some of the \$1.6 billion of these loans that have already been made and pay the difference between what those certificates—those mortgages bear, which as I say will range from 3 to 5 percent, or whatever is necessary to get the money to make new loans.

That is the problem that confronts us.

You want to help the farmer. You want him to have low interest rates. So do we. There are plenty of people in the city that would like to see cattle drop back to 21 cents a pound like it was in 1964. They don't like the idea of \$1.09 for bacon and \$1.35 for steak. Don't you see?

Why are they up there? You know why they are up there. There is the demand for them, isn't there? And still the farmer does not get parity. He is only getting but 85 percent now. Isn't that right?

Mr. McDONALD. That is correct.

The CHAIRMAN. He has not gotten through the years what is coming to him. So we are trying to help him. And we have been making him loans through the years at very low interest rates.

Now, the same pressure that has put up his hogs and his cattle and others in less proportion is putting up the price of money. You just cannot get it. Isn't that right, Doctor? You taught economics.

Senator DOUGLAS. Well, I will deal with that later.

The CHAIRMAN. All right. But that is what the administration says. We can't get this 3-percent money anymore. We can't even get it at 4.5 percent for a long time.

So that is one reason I think that the American Bankers Association sent me this telegram. They realize that we are in a bind. And they say, "With the proposed amendments it offers congressional safeguards, and we interpose no objection."

Now, if you will confine yourself to the farmers and tell us how you think we can get 4.5-percent money for them on the longtime market, we will be glad to hear you.

Mr. McDONALD. I think my answer to that, Mr. Chairman, is we prefer a deficit of \$6 billion, I believe it is for fiscal year 1967, to the Government selling off at sort of a bankrupt sale these securities, this loan paper, next year.

We would also prefer, as indicated by our president's letter, that perhaps taxation, selective taxation, would be preferable for paying for the cost of this Vietnam war in which the people involved are making huge profits. Of course, we are for the profit system, but we think they are making tremendous profits. Perhaps we should have a readjustment in regard to taxation.

If these boys are giving their lives for the country, it seems to me, with the corporations having now, according to Economic Indicators, \$26 billion worth of undistributed profits, some of those undistributed profits, which are causing the inflation incidentally, should be tapped by the Government to make up for the cost of the Vietnam war which is ruining to some extent President Johnson's Great Society program.

But I did not want to—I am trying to stick to my promise to state agricultural matters. And I would hope that the cost of these subsidized agricultural programs would not be increased as they would be under this bill.

We would prefer that the subsidies come out of the Treasury. Let me illustrate.

If you have a subsidy program which is 4 percent, 3 percent, and the cost is 4.6, according to April Economic Indicators, when Treasury bills stood at 4.618, I think it would be preferable to finance these subsidies at this figure than at the figure of 5.4 or 5.5 or whatever it is that these securities would sell for, or 6 percent, on the competitive money market. Because in the last analysis—

The CHAIRMAN. May I interrupt you? Considering the fact we have other witnesses and we cannot be here all the day, would you mind yielding to let Senator Douglas ask you a question or two that he wants to have some information on, and then yield to the Senator from Utah?

Senator DOUGLAS. Mr. McDonald, is it not true that the Farmers Home Administration has been virtually the only farm agency that has helped the so-called poor farmer or small farmer? Is it not true that the price-support programs have primarily helped those who have had larger commercial crops and, therefore, have helped them, but that the poor farmer, the subsistence farmer, the farmer with small crops, has not obtained very much advantage from them? Moreover, isn't it true that the Farmers Home Administration by helping tenants to purchase this land and to obtain loans for livestock, for seed and for machinery, and so forth, has been the most constructive agency for the small farmers that we have had in the last 30 years? Is that correct?

Mr. McDONALD. I would agree completely, Senator Douglas, with both your questions in regard to Farmers Home Administration and in regard to the benefits of the price-support programs.

The Farmers Union is the only general farm organization which has been for a cutoff which would prevent these millionaires, some of them foreign investors, from benefiting to the extent of millions of dollars out of the Federal Treasury because of price support.

We think—

Senator DOUGLAS. Now, you were the strongest force behind the passage of the original Farmers Home Administration Act, were you not?

Mr. McDONALD. We fought many years. Senator Douglas. I was here at that time for Farm Security.

Senator DOUGLAS. Yes.

Mr. McDONALD. We tried to save Farm Security, which was the parent of the present Farmers Home Administration.

Senator DOUGLAS. That is right. And this program was under very heavy attack in the Congress and from the more affluent farm organizations. Is that not true?

Mr. McDONALD. That is correct.

Senator DOUGLAS. Now, you have supported the proposal which has been advanced that no subsidy be paid in excess of \$25,000 to any one farmer?

Mr. McDONALD. That was a figure, Senator, we put forward several years ago. I would imagine that, due to recent economic changes and so forth, that that would probably be doubled today if our—

Senator DOUGLAS. You would only check those receiving over \$50,000?

Mr. McDONALD. That would be gross.

Senator DOUGLAS. Oh. Gross? I see.

Mr. McDONALD. Now, I am really talking—

Senator DOUGLAS. I see. Not net?

Mr. McDONALD (continuing). Without any authority on this point, because we do not have any figures in our resolution.

Senator DOUGLAS. You remember Senator Brewster's amendment of last year which started at \$25,000. That was voted down. Then \$50,000, and that was voted down. I do not know whether or not he put in a resolution not to pay subsidies over \$100,000.

But the figures published for cotton and wheat, as I recall, showed large numbers of farmers getting more than \$25,000 a year in cash subsidies.

The CHAIRMAN. Will the Senator from Illinois yield there?

Senator DOUGLAS. Surely.

The CHAIRMAN. Would you mind saying that the chairman of this committee supported every one of those amendments and has consistently done so?

Senator DOUGLAS. Mr. Chairman, this one of the few occasions where you and I agree. That is right.

And the figures for corn, I believe, were never published.

I have talked with Senator Brewster. He intends to renew his amendment or family of amendments this year.

I would appreciate it if you would help us on these, and we welcome the aid of our chairman in this matter.

The CHAIRMAN. And I have always supported these loans to the farmers. Make no mistake about that.

Senator DOUGLAS. Very good.

And it is your belief that if we could restrict the amounts going to the extremely rich and affluent farmers, in some cases corporation farmers, that we would probably have money enough with which to subsidize loans to the poorer farmers? Is that your position?

Mr. McDONALD. I agree with that.

Let me point out, Senator, that I was speaking of gross sales when I mentioned the figure, so that would mean——

Senator DOUGLAS. Yes; the Brewster amendment was directed to the amount of the subsidy, that the subsidy should not be more——

Mr. McDONALD. That is entirely different.

Senator DOUGLAS. Yes.

Mr. McDONALD. As you know, farm costs have skyrocketed, so that even a farmer making \$25,000 would have maybe \$5,000 left after he met his expenses.

Senator DOUGLAS. Yes.

Well, I have always been in favor of fixing an upper limit. In fact, my upper limits on subsidies are somewhat more rigorous than those which Senator Brewster proposed.

But the \$25,000 limit did not pass. The \$50,000 limit did not pass. And, while I cannot remember whether the \$100,000 limit was proposed or not, if it was proposed, it did not pass.

The difficulty is that we are faced with a situation in which apparently the Congress will place no ceiling on the subsidies paid to the extremely wealthy farmers, who in my judgment do not need them. And yet the costs of the Vietnamese war go on.

I think the administration feels that unless it can sell off these assets the pressure of the conservative forces in Congress and the country will force it to curtail the programs for the relief of poverty and to provide economic and educational opportunity.

And so, with torn heartstrings, they have made this very difficult choice. And there we are.

I want to congratulate the Farmers Union for the part they have played in fostering not only the Farm Security Administration and the Farmers Home Administration but also other constructive measures to help the average American throughout the years.

And I want to thank you, Mr. McDonald, for your unselfish work through the years.

Mr. McDONALD. Thank you.

The CHAIRMAN. I wish to make this comment. I think it must have been 10 years ago we first had a proposal to limit this support program to what we call the family farm. And then with the overall expenses we had a limit of \$25,000. I have supported it all the time, and we have never had a chance in the world to put it through. We have no chance in the world to put it through now.

While it might be a fine theory that if we put this through we could save enough on price supports to finance loans to farmers, we cannot put it through. It is just that simple.

I recognize Senator Bennett of Utah.

Senator BENNETT. Mr. Chairman, I am not going to question the witness at length. Both his statement and the letter of his president indicate that there is some feeling that the Government is going to sell these securities. The Government will continue to hold the securities. The Government will collect the interest. And the Government will sell a new piece of paper with the securities as collateral, which it calls a participation.

Do you understand that?

Mr. McDONALD. I understand that, Senator. What I object to is the increased interest rate. Nobody knows for sure what it will be. But everyone agrees there will be an increase which will go into the pockets, we feel, of the big bankers ultimately.

Now, we have nothing against the banking industry, of course, and particularly the local industry as I mentioned. We think it is important to economic growth in agriculture to have these country banks serving the farmer.

But, as I pointed out, they will be sidetracked in this.

Senator BENNETT. The reason I raise the question is that in the first paragraph of your statement you say that the Government should not act as a bank, that all Federal lending programs and assets should be taken out of the Federal Government and turned over to private business, according to Budget Director Schultze.

Mr. McDONALD. That is what he said.

Senator BENNETT. That is not the effect of this bill. If this bill is passed, the Government will still own the obligations. It will still collect them. And if the man who makes the loan goes into default, the Government will still attempt to force payment.

There is one other point in the last paragraph of your statement before us which has just been called to my attention by our staff economist. It says:

The Federal Reserve Board has been selling securities on the open market thus decreasing liquid reserves of the banks.

He tells me that the reserves have increased by over \$1 billion and the Federal Reserve Board has bought over \$3.5 billion of securities net.

Senator DOUGLAS. Since when?

Senator BENNETT. Since last year according to Mr. Thomas.

Senator DOUGLAS. What have they been doing in the last few months?

Mr. THOMAS. Increasing.

Senator DOUGLAS. Increasing purchases or increasing sales?

Mr. THOMAS. Increasing purchases.

Senator DOUGLAS. I would like to see the figures on that.

Mr. McDONALD. Mr. Chairman, in that connection I have an article from the Wall Street Journal, a clipping dated April 22, 1966. I do not know if you want to insert it in the record or not. But it seems to refute that statement your adviser just made. They are in a minus position now, Senator.

Senator BENNETT. Unless there is some objection the article will be placed at the end of your statement.

Mr. McDONALD. They have no reserves. They are all gone.

Senator BENNETT. But they have moved from a minus position to a plus position and back to a minus position as a matter of policy. This is playing what I call the "numbers game." It depends on the date which you use for your comparison.

Senator DOUGLAS. That is right.

Mr. McDONALD. It has generally been minus, Senator, the last few weeks.

Senator BENNETT. Well, the Government over the last year, and I am sure Mr. Thomas is right, has bought more than \$3.5 billion worth of securities. I mean the Federal Reserve has.

Now, in its operating day to day it may have been selling some of these, selling more than it bought recently. But, on balance, it still bought \$3.5 billion.

Mr. McDONALD. Senator, if you sell \$3.5 billion and buy \$3.5 billion you are just standing still.

Senator BENNETT. That is not my point.

Senator DOUGLAS. Mr. Chairman, I think we ought to get at the facts on this. I would like to have Mr. Thomas, or whoever you designate, prepare a table to be entered into the record showing the net monthly purchases or sales during the last 18 months, with subtotals by each 6 months, and subtotals for the year and a half.

The CHAIRMAN. That will be helpful. That will be done. Our staff economist will get those figures, and we will publish them in this record.

(The table referred to, with comments, follows:)

*Transactions in Federal Reserve System open market account, by months,
February 1965 to February 1966*

[In millions of dollars]

	Outright transactions			Repurchase agreements		Net increase in holdings
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	
1965—February.....	865	198	464	983	1,019	166
March.....	642	-----	7	482	434	684
April.....	466	290	126	1,831	1,717	163
May.....	984	26	-----	1,207	1,233	932
June.....	755	115	224	1,894	1,895	415
July.....	206	284	-----	2,734	2,549	106
August.....	758	398	114	1,552	1,955	-157
September.....	1,692	770	198	450	450	725
October.....	652	671	98	352	352	-117
November.....	1,666	598	150	24	24	918
December.....	816	615	297	1,661	1,372	193
1966—January.....	894	919	228	1,595	1,545	-203
February.....	1,114	979	171	272	611	-376
Total for 12 months ending February 1966.....	10,645	5,656	1,613	14,054	14,197	3,283

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase such holdings.

Source: Federal Reserve Bulletin.

COMMENTS AS TO FEDERAL RESERVE OPERATIONS

Federal Reserve operations in U.S. Government securities during 1965 and the first 4 months of 1966 have had the effect of assuring a substantial and fairly steady increase in the volume of reserves available to banks. Purchases and sales have varied in the course of the year to offset the effect of seasonal and other temporary variations in various factors affecting the supply of reserves. These variations through February are reflected in the table.

On balance, daily average reserves of member banks increased by nearly \$1.2 billion from the last week of April 1965 to the last week of April 1966.

Funds to supply reserves, as well as to meet a loss in the country's gold stocks of nearly \$800 million and an increase of over \$2 billion in currency in circulation (other than that supplied by Treasury issues of coins), were provided by the increase in Federal Reserve holdings of Government securities, amounting to \$3.1 billion, by additional member banks borrowing at the Federal Reserve banks of nearly \$300 million, and by other factors of less importance.

The additional reserves and currency thus made available provided the basis for a large expansion of bank credit that resulted in an increase of the country's

money supply—demand deposits and currency—of over \$9 billion, or about 5 percent, and an increase in time deposits at banks of nearly \$20 billion, or 15 percent. This expansion in money and credit has been fairly continuous throughout the past year, after allowance for usual seasonal variations.

The CHAIRMAN. I don't like to hurry this, but—

Senator BENNETT. All right. No further questions.

Senator PROXMIRE. I will be brief.

I am shocked at the conclusion here. Are you concluding that the farmers would have to pay higher interest rates because of this Participation Sales Act?

Mr. McDONALD. Yes, sir.

Senator PROXMIRE. This shocks me. We went into great detail with the Small Business Administration on this provision. Nobody argued that any small businessman would have to pay more than 5.5 percent or on distress loans more than 3 percent. And I am very puzzled as to how you conclude that.

It seems to me this could not possibly affect the interest rate that the original borrower has to pay, unless there is further congressional action. I do not see how the Participation Sales Act by itself would have any effect on the amount that the person who borrows from the Government has to pay.

Mr. McDONALD. I think, Senator Proxmire, it might work something like this. You were not here when I described what is happening, what has happened, in regard to FHA loans and what might happen under this bill.

I think the local banker would be sidetracked, and FHA would not go to him at all, nor the farmers to the local bank. It would be handled by FHA and Fannie Mae.

Now, the local banker is put in a very bad position. He no longer has this bulwark of the guaranteed insured loan, this paper, which enables him to make other loans, small loans, to keep his customers, to lend money for a tractor.

I think the local banker would feel that because of the general increase in interest rates along the line he would have to get more interest and more and more in any loan that he made to the farmer.

Of course, my point on the subsidized program was that nobody seems to know and the Director of the Budget yesterday didn't know in response to Senator Douglas' question, how much this was going to cost, a half a percent increase, a quarter of a percent increase, or what.

Senator PROXMIRE. The increase is not paid by the borrower, by the farm borrower.

Mr. McDONALD. That ultimately—

Senator PROXMIRE. Our complaint is it is paid by the taxpayer.

Mr. McDONALD. The subsidized programs are paid by the taxpayers.

The CHAIRMAN. If the gentleman will yield, nobody denies that this is going to cost more.

Senator PROXMIRE. Yes.

The CHAIRMAN. But a good illustration is the bill we passed which was for 3-percent loans. We put \$300 million in it. It was all taken up the first month. And we got over \$700 million applications pend-

ing. Three-percent money. They could not get it anywhere else. A whole lot wanted it.

There is nothing in this law that raises that 3 percent. But the agency that lends the 3 percent has not got any more money. So we are going to subsidize the 3-percent certificate based upon the 3-percent loan at whatever it is, 5.5, but we do not raise it any higher to the colleges. But the taxpayer pays the difference.

So now we are down to this. You cannot get any more 3-percent money. You cannot get any more 4-percent money. You either do not put the money out, or you are going to pay more interest for it.

The administration says it is going to cost you some, but Congress can have control, because you can't put out any more of these subsidized certificates than the Appropriations Committee will authorize. But we do not have to go in and officially raise that 4.5 percent.

Senator PROXMIRE. Thank you.

The CHAIRMAN. The Senator from Maine.

Senator MUSKIE. No questions.

The CHAIRMAN. Do you have something more, Mr. McDonald?

Mr. McDONALD. I do have one or two remarks. I think this will have a bad effect on home mortgages as indicated. I think it will have a bad effect on the farmer getting loans from the local banker.

Why should the local banker, when he can pick up the phone and buy a participation guaranteed for 5.5 percent, loan money to me, a farmer, who is not too good a risk? Why should the local banker tie up his funds in a house or a building or a tractor which he cannot get rid of if the loanee does not make good?

So it will just squeeze the credit in the local areas.

Senator DOUGLAS. Are you more afraid of the indirect effects than of the direct effects?

Mr. McDONALD. Yes, sir. I believe that is correct, Senator. There is a general trend, as we all know, toward higher interest rates, and we feel that it is partly because of the Federal Reserve Board. I think the President feels the same way as represented by his December statement.

And we know that the Federal Reserve Board could have done this thing in several other ways besides giving the time depositors up to 5.5 percent. That has been perhaps one of the worst effects of this action.

I have one final comment.

I was going to express my appreciation for this committee allowing me to come here today. I believe it wasn't in the original plan. And the Farmers Union is very grateful for the opportunity to come here.

Senator DOUGLAS. A soft answer which turneth away wrath.

Mr. McDONALD. And this is really a wonderful committee. Nothing I have said is any indirect criticism of the members of this committee. We have always been your admirers. We feel, however—

Senator DOUGLAS. Let me say Mr. McDonald is a Scotchman, and Scotchmen are proverbially tough and persistent.

The CHAIRMAN. We understand each other.

Senator DOUGLAS. He fights for what he believes. I have found him through the years to be very tough, and I honor him for it.

Mr. McDONALD. Mr. Chairman, if I may be permitted an off-the-record remark.

(Remark off the record.)

Mr. McDONALD. Thank you very much.

The CHAIRMAN. You are welcome, sir.

(The Wall Street Journal article and the Federal Reserve statistics follow.)

[From the Wall Street Journal, Apr. 22, 1966]

RESERVE SYSTEM U.S. SECURITY HOLDINGS SLASHED—IT MADE LARGEST 1-WEEK CUT IN 18 YEARS; TREASURY TAX FUND REDEPOSITS FELL—BANK LOAN PRES-SURE GROWS

(By a Wall Street Journal staff reporter)

NEW YORK.—The Federal Reserve System reduced its holdings of U.S. Government securities in the week ended Wednesday by the largest week-to-week amount in 18 years and thus bore down further on the capacity of the Nation's banks to lend and invest.

This was disclosed in data released yesterday by the New York Federal Reserve Bank. The weekly reduction in the system's holdings of Government obligations was \$1,084 million, the biggest drop since the week ended February 4, 1948.

Still further pressure on the Nation's commercial banking system last week came when the Treasury didn't redeposit with the banks certain funds it collected on the April 15 tax payment date. Banks had been counting on the usual redeposit of 50 percent of larger checks drawn on them by corporate taxpayers. But the Treasury's own short cash position prevented it from redepositing the funds.

The reserve position of the Federal Reserve member banks across the country—a rough indicator of monetary policy—showed that on an average day in the latest statement week the banks had "net borrowed," or minus, reserves of \$281 million. This was the largest amount since March 2, 1960, when the minus reserve figure stood at \$352 million.

The previous week's initial estimate of \$287 million in minus reserves was also the highest since March 1960, but this week the estimate was reduced to \$231 million. Net borrowed reserves had exceeded the \$200 million mark only four times all last year, when a moderately restrictive Federal Reserve policy prevailed.

TUGGING AT CREDIT REINS

In the past 2 months the reserve system has been tugging harder at the credit reins in an apparent effort to moderate the rate of expansion in the economy. This new policy became noticeable 7 weeks ago when the net borrowed reserve figure hit \$237 million.

Also indicating the increased tightening in the statement week was a further increase in total borrowing by member banks from Federal Reserve banks. Such borrowings in the week ended Wednesday averaged \$685 million a day, up from an already high level of \$603 million a week earlier and a substantial increase from an average level of about \$500 million a day in most weeks last year.

Some indication of the unusual pressure on reserves can also be seen in a Wednesday-to-Wednesday rise of \$701 million in borrowings by the 13 reporting New York City Federal Reserve banks. This was the highest weekly rise since December 1952. The \$701 million rise brought the borrowings at the New York banks to \$706 million last Wednesday.

Commercial bank members of the Federal Reserve System are required to set aside certain percentages of their deposits at Federal Reserve banks or as cash in their own vaults; these deposits frequently represent loans credited to the borrowers' deposit accounts. On any day, some banks will have reserves that exceed their requirements, while others will have to borrow from the Federal Reserve to meet their needs.

When total borrowings are greater than aggregate excess reserves as at present, the difference—a minus amount—constitutes net borrowed reserves. When excess reserves total more than the borrowings, this constitutes free reserves or uncommitted funds the banks can lend and invest.

HUGE REDUCTION

The main factor contributing to the further tightening of reserves was, of course, the huge reduction in the system's holdings of U.S. Government securities. Although the Federal Reserve System's daily average holdings of Government securities fell \$1,084 million on a Wednesday-to-Wednesday basis the system's daily average holdings were down \$520 million in the statement week. The total decrease occurred in securities due to mature in a year or less.

When the Federal Reserve disposes of Government securities in the open market, it takes money out of the banking system or "sops up" reserves as the securities dealers draw on their banking accounts to pay for the securities.

Some indication of the effect of the Treasury's failure to redeposit its tax funds can be seen in figures on U.S. Government deposits with the New York City banks. These deposits rose \$16 million on a Wednesday-to-Wednesday basis in the latest statement week. In the statement week that included the March 15 tax payment date the Wednesday-to-Wednesday rise of U.S. Government deposits at the New York banks was \$334 million.

The tightening factors in the statement week more than offset expansionary factors in the week. One was a \$307 million daily average rise in the "float" of checks delayed in collection for which Federal Reserve banks automatically get credit. Another was a \$301 million daily average rise in vault cash counted as part of reserve.

NEW YORK LOANS DROPPED

The New York Federal Reserve Bank reported also that commercial and industrial loans at leading New York City banks fell \$42 million in the week ended Wednesday. This drop followed a \$72 million rise in the previous statement week. Bankers said the drop in New York loans in the latest week was surprising because corporations were expected to make large borrowings for the April 15 tax payment date.

The \$42 million drop in the latest statement week brought the total of business loans on the books of the 13 reporting New York banks to \$17,831 million, a net rise of \$558 million since the start of the year. A year ago such loans showed a Wednesday-to-Wednesday rise of \$14 million but were up \$888 million since the start of the year.

Other figures released by the New York Federal Reserve Bank showed that major New York bank loans to sales finance and business credit companies rose \$176 million in the statement week to \$1,993 million. In the previous week the loans had fallen \$63 million. The total outstanding loans of New York banks to sales finance and business credit companies on Wednesday was down \$23 million from the end of 1965. In the year earlier week, such loans rose \$80 million and were up \$59 million from the end of 1964.

In another development, the New York Reserve Bank reported that the total of negotiable certificates of deposit at major New York City banks rose \$40 million to a record \$7,352 million, marking the fifth consecutive weekly increase. In the previous week the rise was \$45 million. The continuing rise was attributed mainly to the higher rates that the banks have been paying for the CD's to replace other certificates that have fallen due and haven't been renewed.

SAVINGS DEPOSITS DROP

As the commercial banks gained funds through CD's, they continued to lose regular savings deposits on which they are barred from paying more than 4 percent. The latest statement week registered a drop of \$53 million and followed a drop of \$66 million the previous week. The drop in regular savings deposits so far this year is \$359 million, in contrast to a rise of \$238 million in the like 1965 period. Bankers attributed the fall this week mainly to withdrawals of funds to meet the April 15 tax payment.

Commercial and industrial loans of leading Chicago banks fell by \$11 million in the latest statement week, bringing their gain since the start of 1966 to \$40 million. In the 1965 week such loans fell \$25 million and were up \$175 million since the start of that year.

The New York Reserve Bank also reported that the U.S. monetary gold stock was unchanged in the week. There was a drop of \$100 million in the stock 4 weeks ago. That drop was the first U.S. gold loss this year, putting the monetary gold hoard at \$13,634 million, the lowest level since September 1938. In 1965

the loss from the U.S. monetary gold reserve totaled \$1,654 million, the largest since 1960, when the total outflow was \$1,703 million.

FEDERAL RESERVE REPORT

Assets and liabilities of 13 weekly reporting member banks in New York City

[In millions of dollars]

	Apr. 20 1966	Apr. 13 1966	Apr. 21 1965
ASSETS			
Total loans and investments.....	42,483	41,765	38,822
Loans and investments adjustment (r).....	42,118	40,989	37,736
Loans adjusted (r).....	31,765	31,097	27,225
Commercial and industrial loans.....	17,831	17,873	14,747
Agricultural loans.....	21	22	29
Loans to brokers and dealers for.....			
U.S. Government obligations.....	696	421	450
Other securities.....	2,293	2,015	2,427
Other loans for purchase or carry:.....			
U.S. Government obligations.....	15	17	12
Other securities.....	640	640	518
Sales, personal finance, etc.....	1,993	1,817	1,575
Other.....	1,222	1,246	945
Loans to foreign banks.....	792	810	843
Real estate loans.....	3,019	3,006	2,400
Other.....	4,010	3,996	3,899
Loans to domestic commercial banks.....	365	776	1,092
U.S. Government securities, total.....	4,386	4,236	4,555
Treasury bills.....	1,214	1,061	870
Treasury certificates of indebtedness.....	125	124	0
Treasury notes and bonds maturing.....			
Within 1 year.....	586	591	673
1 to 5 years.....	1,320	1,317	1,699
After 5 years.....	1,121	1,143	1,313
Other securities.....	5,967	5,656	5,950
Reserve with Federal Reserve bank.....	3,898	3,826	3,368
Currency and coin.....	303	313	286
Balances with domestic banks.....	153	149	141
Other assets, net.....	2,891	2,893	2,609
Total assets, liabilities.....	56,016	54,999	50,607
LIABILITIES			
Demand deposits:.....			
Adjusted.....	17,276	16,685	15,995
Total (e).....	27,018	26,186	25,842
Individual partnerships and corporations.....	18,756	18,121	17,218
States and political subdivisions.....	264	283	305
U.S. Government.....	131	115	1,141
Domestic interbank:.....			
Commercial.....	3,323	3,333	3,385
Mutual savings.....	312	357	320
Foreign:.....			
Official institutions.....	654	552	546
Commercial banks.....	946	991	875
Time and savings deposits, total (v).....	18,077	18,067	15,374
Individuals, partnerships, and corporations:.....			
Savings deposits.....	4,922	4,975	4,880
Other time deposits (z).....	8,846	8,940	6,468
States and political subdivisions.....	666	630	528
Domestic interbank.....	486	481	372
Foreign:.....			
Official institutions.....	2,935	2,822	2,910
Commercial banks.....	139	139	135
Borrowings:.....			
From Federal Reserve banks.....	706	5	0
From others.....	1,688	2,170	1,902
Other liabilities.....	3,581	3,622	3,148
CAPITAL ACCOUNTS			
Capital accounts.....	4,946	4,949	4,341

r—Exclusive of loans to domestic commercial banks and after deduction of valuation reserves; individual loan items are shown gross. e—Includes certified and officers checks not shown separately. v—Includes time deposits of U.S. Government and postal savings not shown separately. z—Includes Christmas savings and similar accounts which amounted to \$45 million for the current week. s—Not available.

Member bank reserves and borrowings of Central Reserve New York City Banks

[In millions of dollars]

	Change since—		
	Apr. 20, 1966	Apr. 13 1966	
Reserves with Federal Reserve bank.....	4,351	+90	-----
Required reserves (partly estimated).....	4,270	+63	-----
Excess reserves.....	81	+27	-----
Daily averages for week:			
Estimated excess reserves.....	12	-26	-----
Borrowings at Federal Reserve bank.....	160	+132	-----
Free reserves.....	-148	-158	-----

Member bank reserve changes

[Changes in weekly averages of member bank reserves and related items during the week and year ended Apr. 20, 1966]

[In millions of dollars]

	Change from week ended—		
	Apr. 20, 1966	Apr. 13, 1966	Apr. 21, 1965
RESERVE BANK CREDIT			
U.S. Government securities:			
Bought outright—system account.....	40,301	-486	+2,815
Held under repurchase agreement.....		-34	-108
Acceptances—bought outright.....	77		+24
Held under repurchase agreement.....	34	-6	-4
Loans, discounts and advances:			
Member bank borrowings.....	685	+82	+113
Other.....	21	+1	+4
Float.....	2,176	+307	+220
Total Reserve bank credit.....	43,293	-138	+3,063
Gold stock.....	13,632	-1	-780
Treasury currency outstanding.....	5,776	+16	+368
Total.....	62,702	-122	+2,651
Money in circulation.....	41,768	-96	+2,710
Treasury cash holdings.....	951	+18	+190
Treasury deposits with Federal Reserve banks.....	268	+130	-613
Foreign deposits with Federal Reserve banks.....	146	-12	-32
Other deposits with Federal Reserve banks.....	406	+11	+178
Other Federal Reserve accounts (net).....	448	-110	-272
Total.....	43,988	-58	+2,162
Members bank reserves:			
With Federal Reserve banks.....	18,713	-65	+489
Cash allowed as reserve (estimate).....	3,927	+301	+429
Total reserves held (estimate).....	22,640	+236	+918
Required reserves (estimate).....	22,236	+204	+988
Excess reserves (estimate).....	404	+32	-70
Wednesday to Wednesday			
Member bank reserves:			
With Federal Reserve banks.....	18,488	+136	-----
Currency and coin (estimate).....	4,337	+140	-----
Total reserves held (estimate).....	22,825	+276	-----
Required reserves.....	22,307	+162	-----
Excess reserves.....	518	+114	-----
Borrowings at Federal Reserve banks.....	1,587	+1,290	-----

12 Federal Reserve banks' position

[In millions of dollars]

	Apr. 20, 1966	Apr. 13, 1966	Apr. 21, 1965
ASSETS			
Total gold certificate reserves.....	13,180	13,185	14,128
U.S. Government securities:			
Bought outright:			
Bonds.....	6,571	6,571	4,928
Certificates.....	12	12	
Notes.....	24,926	24,926	25,691
Bills.....	8,434	9,278	6,806
Total bought outright.....	39,943	40,787	37,425
Held under repurchase agreement.....	0	240	77
Total U.S. Government securities.....	39,943	41,027	37,502
Total assets.....	64,059	62,913	60,096
LIABILITIES			
Federal Reserve notes.....	36,653	36,857	34,188
Total deposits.....	18,555	18,115	18,750
Ratio of gold certificate reserves to Federal Reserve notes (percent).....	(35)	(34.9)	(40.6)
GOLD RESERVES			
Gold reserves.....	13,634	13,634	14,413

Next witness, Mr. Clerk.

Mr. HALE. Mr. Northup of the Mortgage Bankers Association asked for an opportunity to speak.

The CHAIRMAN. Without objection, this witness may have printed in the record his full prepared statement.

I hope you will try to summarize it within the rules under which we normally operate, that a witness will summarize in 10 minutes his views but print as much as he wants in the record within limitations.

STATEMENT OF GRAHAM T. NORTHUP, DIRECTOR OF GOVERNMENTAL RELATIONS, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. NORTHRUP. My name is Graham Northrup, director of government relations for the Mortgage Bankers Association of America.

We have no printed statement in view of the fact that we were only advised of the hearing at 9:15 this morning, sir. But I will try to be brief and enter some material in writing in order that you will have the benefit of the thinking that we have.

We appreciate the opportunity to be here and to speak to this committee on this very important piece of legislation.

We do wish that it would be possible for us to have had more advance notice or another opportunity to appear with a written statement, which we believe would be more valuable to you.

I represent an organization of mortgage bankers and investors who are involved principally in the financing of real estate mortgages. We do a large volume in home mortgages, farm mortgages, commercial and industrial properties, and our organization represents mortgage bankers and investors both.

We have a large number of insurance companies, savings banks, and pension funds in our membership, as well as the bankers who originate and service these mortgages for these national investors.

We are presently servicing about \$50 billion worth of residential, industrial, and commercial mortgages, and we originate each year in the neighborhood of \$9 billion worth of residential mortgages.

We have, as a result of this, a great interest in this piece of legislation and in most items of legislation that come before the Congress which affect the national money market in one way or another.

Those items of legislation that have a tendency to increase or decrease the shortage of money available in the market for any purpose have an effect ultimately on the mortgage market with which we are so much involved.

To answer Senator Robertson's questions about our area of interest, we are not an authority, and I personally am not an authority, on all phases of finance. However, because of our association with this national money market, we do have an interest in this legislation, and I will try to restrict my remarks to the parts that are really germane.

As I said, we do not have a written statement with respect to this particular piece of legislation in view of the shortness of the time.

However, on February 24, 1966, we did address a letter to Senator Robertson with respect to S. 2499, the bill which was before you at that time, with respect to the participation pools for the Small Business Administration.

With your permission, Mr. Chairman, I would like to have entered in the record a copy of that letter which does get into the principal arguments which we have against this legislation.

I would like to summarize these four by saying:

First, we are concerned, at a time when we are trying to reduce our domestic spending and maintain a sound budgetary approach to things, that we should be undertaking a program which everybody seems to admit will be more costly than direct Treasury financing of the obligations which are in the hands of the agencies at the present time.

The General Accounting Office did do a study prior to your hearings on S. 2499 which indicated the additional costs of participation pools that had been put out prior to those hearings. Using those figures from the GAO report and converting them to percentages and then applying those percentages to the approximately \$8 billion worth of participation pool certificates that you plan to sell in this and the next fiscal year, we estimate this will have an additional cost to the U.S. taxpayers of \$381 million. And we do not see why this is necessary.

Secondly, we do feel that this legislation circumvents the prohibition against the 4¼ percent Treasury financing—I mean the 4¼ percent limit on Treasury borrowing. It gets around this very neatly by going to Fannie Mae and letting Fannie Mae sell participations. In the last issue they sold I believe they went for yields as high as 5.75 percent.

We in our association do not believe the Treasury should be limited to 4¼ percent in its borrowings. We believe it should be able to borrow at market rates. But so long as the Congress keeps this limit on

the Treasury we feel this device is simply a means of circumventing your imposed control.

There is some loss in the degree of congressional control over program operations under the participation pool program.

The letter which I am submitting for the record speaks to S. 2499, and I would like to call to your attention we agree the draft you are now considering does have more congressional control. This argument has been offset somewhat by the requirements that the agencies come in for appropriation to make up the difference between the yield on the securities in the pool and the cost of these participation certificates to Fannie Mae.

However, I still feel—and I will admit that I have been too busy this week to review the amendments on the House bill that you now have before you, but it is my understanding that there still would be a possibility for some of these funds to go back into a revolving fund and be used.

My understanding of the Farmers Home Administration's revolving fund, for instance, is that you have no legal limit on the number of dollars of loans that they can make out of this revolving fund at all. There is a limit in there, I believe, of \$100 million that they can have outstanding in loans, at any one time, out of that revolving fund. I would stand to be corrected.

I know, Senator Sparkman, that you are an authority on this particular piece of legislation.

But I do think it is something we should examine. And if we do have revolving funds that have not got some precise limit to govern program activity, we should think about this and impose such controls.

Fourth, we do not consider this measure—and I think this is the principal argument that I would like to make before you this morning—we do not consider this participation pool program an effective means of stimulating private investment in the kinds of lending that are involved in these participation pools.

This measure has been proposed to you on the basis that this is a substitution of private credit for public credit and that it is consistent with the recommendations of the various committees that have studied the problems of credit, consistent with their recommendations that Government programs should stimulate and not supplant private credit.

I would like to quote for you, if I may, a couple of the recommendations that have been referred to by the proponents of this legislation.

The report of the Committee on Federal Credit Programs to the President of the United States was made to President Kennedy, I believe, and sent out, by him, to the various agencies. It says, on page 7:

Basic principles: In our society there is a presumption that the allocation of credit for essentially private purposes should be a function of private markets. Accordingly, the committee believes that Federal credit programs should in the main, and whenever consistent with essential program goals, encourage and supplement rather than displace private credit. This is more than a matter of basic economic philosophy. It also recognizes the fact that the private market will continue to account for the great bulk of all credit extensions. More can be gained in the end, therefore, if Federal credit programs, by working through the private market, help to make it stronger and more competitive than if they unnecessarily preempt the function that the private parties can potentially perform effectively.

They go on in this paragraph. And I would like to skip over to another paragraph here on page 8. I will give you this reference. It says:

The ultimate objective should be to reduce or eliminate the Government involvement if and as private imperfections disappear.

Now, let me cite for you what this bill does. This bill does not bring the private market closer to the problem areas of financing that you are trying to deal with in your various programs. It contemplates that the Government agency will make the loan and service the loan. The notes will be put in trust with Fannie Mae. The mortgages will be serviced continuously by the agencies who originated these loans.

Now, the FHA and VA mortgages in these pools I exempt from this particular discussion because they do operate differently, but the FHA mortgage is the best example of the difference. Here you have a loan which is originated through a local mortgage institution, be it by member or a commercial banker or a savings and loan or a savings bank. Whoever it is, it is a local institution.

This institution originates this loan and services this loan. If it sells that loan to Fannie Mae and the loan is ultimately put into the private market through a participation program, the servicing still remains at the local level.

There is a familiarity with this particular borrower and this particular borrower's type of problem. This is not inherent in what you are proposing under this participation pool program.

Take Farmers Home Administration as an example. Farmers Home Administration makes the loan. Farmers Home Administration services the loan. They sell the note to Fannie Mae. Fannie Mae sells a piece of paper that represents a participation to the extent of maybe 1 brick in 100 different houses to an investor somewhere.

Now, that investor never becomes familiar with the kind of lending that is involved, and there is no local lending company.

THE CHAIRMAN. May I interrupt just a moment?

MR. NORTHRUP. Yes, sir.

THE CHAIRMAN. I realize you did not have notice enough to comply with our regulation to have a statement for every member of the committee. You have no prepared statement?

MR. NORTHRUP. No, sir. I do not.

THE CHAIRMAN. Tell me this: Are you for or against this bill?

MR. NORTHRUP. We are very much opposed to this bill, Senator.

THE CHAIRMAN. Can you tell us in simple words why you are opposed to it?

MR. NORTHRUP. Yes sir; I am trying to do that.

THE CHAIRMAN. I know, but I just want you to please try to summarize your objections 1, 2, 3, that it does this, it does the other, that you are against it.

MR. NORTHRUP. No. 1, it is more costly than direct Treasury financing.

No. 2, it circumvents the legal prohibition against Treasury borrowing in excess of 4½ percent interest.

No. 3, there is a loss or reduction at least of congressional control over programs.

No. 4, it does not effectively stimulate private investment. It substitutes for it.

I would only like to add one additional point here, sir, and that is that we agree with the comments made by the previous speaker that this will have an adverse effect on home mortgage interest rates.

We believe that the injection of this additional \$4.7 billion into the market at this time will aggravate the current shortage of funds and tend not only, because it permits borrowing at higher than 4¼ percent, raise the entire level of interest rates in the market, but create an additional shortage of funds which will aggravate the residential and commercial mortgage business.

Thank you, sir.

The CHAIRMAN. Thank you.

Are there any questions?

Senator SPARKMAN. May I ask this question: Do you think it would aggravate the market more than the Government issuing a similar amount of bonds?

Mr. NORTHUP. No, sir. I don't.

Senator SPARKMAN. Which it would have to do to take care of the same amount of indebtedness or to take care of any deficit.

Mr. NORTHUP. Senator Sparkman, I am only asked to comment on this particular bill. But to answer that question I have to say that our philosophy is that we ought to have a little less butter and reduce the domestic spending that is not absolutely essential to avoid this problem.

The CHAIRMAN. If Senator Sparkman will permit——

Senator DOUGLAS. What items would you cut down? War in Vietnam?

Mr. NORTHUP. I refer to nonessential domestic spending Senator Douglas. Obviously we are in favor of support of Vietnam.

The CHAIRMAN. We might hear from the Senators from Wisconsin and Minnesota. Those are butter States.

I just want to say this: If we issue the bonds, the banks cannot buy them. They cannot even make loans to their best customers right now. Who would buy them? The agency that can issue a dollar against every bond that they buy. And what happens when a Federal Reserve bank buys? It sets up \$6 of new credit for every dollar it buys. So think of the inflationary effect if we have to force all of this deficit financing into the Federal Reserve System. How do they pay for it? They issue the money. We have authorized them to do it.

Senator DOUGLAS. The chairman is quite correct in saying that if the banks create the monetary purchasing power which the bonds support, it is an expansion sixfold.

The CHAIRMAN. For the Federal Reserve bank, not the commercial banks.

Senator DOUGLAS. Well, they increase the reserves.

Senator BENNETT. We are running downhill so fast that everybody is out of breath. [Laughter.]

But I would like to add my thanks. I think it is important that somebody should come and present the other point of view on this very important bill, particularly since the charge has been made that on the other side of the Capitol no opportunity was given for any opposition witness.

I appreciate the fact that you had to come here under the worst possible circumstances, with no time to think the thing through.

I realize, Mr. Chairman, that he was talking as fast as he was because you were anxious to have him finish and get through.

As far as I am concerned, I would like to thank him for the excellent job he did.

Mr. NORTHUP. Thank you. I would like to say that I talked so fast because I was wanting to get through this.

The CHAIRMAN. Yes; we appreciate that. Thank you very much.

(The Mortgage Bankers Association of America later supplied the following material:)

MORTGAGE BANKERS ASSOCIATION OF AMERICA,
Washington, D.C., February 24, 1966.

Senator A. WILLIS ROBERTSON,
Chairman, Senate Banking and Currency Committee,
New Senate Office Building, Washington, D.C.

DEAR SENATOR ROBERTSON: On behalf of the Mortgage Bankers Association of America may I express appreciation for this opportunity to express the views of the association on S. 2499. The bill relates only to the authority of the Small Business Administration to pool loans and sell participations therein, either directly or through a trust agreement with the Federal National Mortgage Association. However, as you are aware, the proposal is symbolic of a trend in Federal fiscal management, and it therefore, must be considered in a broader light.

From statements made by the Director of the Bureau of the Budget in his testimony before Senator Proxmire's subcommittee, and from information in the President's economic message, we judge that it will be an administration policy to liquidate an increasing variety of debt instruments through this device. Just how broad this effort will be is not yet clear, but Senator Tower's letter of October 14, 1965, to Mr. Matthew Hale (p. 113 of the hearings on S. 2499) contains an impressive list of the types of collateral held in various Government agencies and which it would be possible to include in this type of financing.

The major justification usually advanced for financing through the participation pool is that it makes the budget for the year in which the sales occur look better. However, this appearance is deceptive, and while it may be understood by the Congress, it almost certainly deceives the taxpayer.

We find four principal objections to the kind of financing proposed in S. 2499:

- (1) It is more costly than direct Treasury financing.
- (2) It circumvents the legal prohibition against Treasury long-term borrowing at more than $4\frac{1}{4}$ percent interest.
- (3) There is a loss, or at least a reduction, of congressional control over program activity.
- (4) We do not consider it an effective means of substituting private investment for Government investment.

As to cost

During fiscal year 1966 it is proposed to sell \$3.3 billion of participations, most of which have in fact already been sold. During fiscal 1967 it is proposed to sell \$4.7 billion.

Government Accounting Office figures, shown on page 49 of the hearing report on S. 2499 indicates the excess costs associated with this type of financing. Converting these figures to percentages and applying those percentages to the \$8 billion of participations proposed to be sold in fiscal 1966 and 1967, we estimate a total additional cost to the Government of over \$381 million (computation on attached sheet).

The proceeds of sales in any given year are handled as an offset against spending, however, the costs are cumulative. Conceivably, a point will be reached where sales in any one year will net nothing after deducting the costs.

As to the $4\frac{1}{4}$ percent interest rate ceiling

The rates currently being paid on participation certificates, many of which are in reality long-term obligations, are considerably in excess of the $4\frac{1}{4}$ -percent maximum which the Treasury can pay for long-term obligations. While there may be valid questions raised about the advisability of limiting the Treasury by

law to this rate, or any other rate, the fact remains that this legal requirement does presently prevail. The effect of taking these obligations out of the Treasury and transferring them to FNMA and the participation pool is to circumvent this legal maximum. In addition, these obligations in participations are not considered as a part of the national debt, therefore, they are not subject to the debt ceiling established by Congress. In fact, they reduce the debt as Treasury obligations are retired, making it more difficult than ever to make objective judgments of the Federal financial position.

As to loss of congressional control

Perhaps more serious from the congressional viewpoint is the fact that use of participation pools in conjunction with the concept of revolving funds makes it practically impossible for the Congress to exercise any control over the lending activities of the agency. In some existing programs, the proceeds of the sales of participations replenish revolving funds from which the agency makes loans. Presumably, this will be true in the future extensions of this concept.

In the case of SBA there is a definite dollar limit on the loans which can be made. In other instances, activity is limited only by a maximum dollar amount per year, or a maximum dollar amount outstanding and unsold at any one time (see sec. 517, National Housing Act, governing activity of the Farmers Home Administration). The ability of an agency to make loans under this latter type control is limited only by its ability to sell loans quickly.

Some agencies are limited in their activity by expiration dates on their programs, but these are generally renewable by legislative committees rather than appropriations committees. Hence, the difficulty arises of coordinating the agency's program lending activity with financial policy as enunciated by the Congress.

Additionally, we are advised that there is no statutory limit on the amount which the FNMA can borrow from the Treasury to make up the difference between rates received on securities in the pool and rates paid on participation certificates. While there is such a proliferation of different laws involved here that we find ourselves less than certain about this point, we understand that FNMA can borrow funds without limit from the Treasury to make up deficiencies in the receipts from payments on obligations in the pool which occur because of the fact that lower interest rates prevail on the loans than on the certificates sold in the private market. This cost can reach significant proportions. For example, if this interest rate spread were as little as one-half of 1 percent, it would amount to \$40 million per year on \$8 billion of participation certificates. Although this has not been a problem on participation certificates sold to date, it probably will be in the future. Authority exists, for example, for the Department of Housing and Urban Development and the Farmers Home Administration to make loans at rates as low as 3 to 4 percent, while at the present time investors are seeking yields as high as 4.65 percent on long-term Treasuries.

These are not additional costs for these programs, for Congress has authorized the subsidy involved in these "below market" programs. However, the extent to which such programs are utilized, and the total amount of subsidy the Treasury will be called upon to provide, will be largely beyond congressional control under the circumstances outlined above.

As to recommendations of the Committee on Federal Credit Programs

This program does not, in our opinion, comply with the basic principle of the report of the Committee on Federal Credit Programs cited on page 11 of the hearings on S. 2499. Contrast, for example, operations of the Federal Housing Administration with those of the Farmers Home Administration. Under the Federal Housing's mortgage insurance programs, loan applications are processed by privately owned lending institutions which make loans with the funds of private investors. Through this insurance function, private investment is truly encouraged. Even when loans are sold to FNMA and that agency pools the resulting loans, selling participations therein, servicing of the loans remains in private hands. Under these circumstances private lenders gain increasing familiarity with borrowers and as opportunities for profitable investment arise private funds move directly into these markets.

Under the Farmers Home Administration program a Government agency handles all origination and servicing functions precluding any contact between a borrower and a private lender. No opportunity exists for increasing the private lender's knowledge of the market. The sale of loan participation in

pools of these loans does not give investors any firsthand familiarity with this market.

SBA loans, and loans of other agencies proposed for participation pools, would include some loans falling in each of the above categories, but the participation pool has no benefit in stimulating further private investment in these markets.

We request the committee to take note of our real concern on this point. Mortgage bankers have engaged in a successful 30-year effort utilizing FHA insurance to bring an ever-increasing number and variety of investors into the housing finance field. We know from experience that private investment can truly be stimulated by such a program. FHA standards constitute a benchmark which not only governs lending on an insured basis, but guides lenders in the conventional field as well.

Conversely, we know from experience that direct Government loans, either at market rates or submarket rates, drive private lenders out of the market for such loans. This is particularly true where submarket interest rates are involved. To suggest that the subsequent sale of these securities (or participations in a pool of them) on the basis of an absolute guarantee, ideal liquidity, and yields above those paid on Treasury obligations, constitutes a stimulation of private investment, is to demonstrate a complete lack of understanding of the financial markets.

As to the effect on mortgages

So far as the mortgage market is specifically concerned, we can only conclude that the action contemplated by S. 2499 and current Federal budget proposals will add impetus to the upward push on interest costs. So long as the current Treasury obligations are outstanding at their lower interest rates the amounts which investors can pay for savings must of necessity remain lower. As they are refunded through the participation pools, lower interest obligations will be substituted in loan portfolios by the higher yielding participation certificates, and the ability to pay more for savings will be increased with the consequent upward pressure on the general level of interest rates, including mortgages. At least at the present time we consider such action to be highly undesirable. Current rates of mortgage interest are approaching the legal maximum in many States. They are so far above the presently established maximum FHA and VA rate as to make money for these programs very scarce. In addition, so long as Government guaranteed obligations, such as the participation certificates, are available at high yields there will be little incentive for investors to assume the problems associated with mortgage finance, thus it will be increasingly difficult for the private mortgage market to carry on its normal responsibility. The ultimate result, obviously, will be increased reliance on the Federal Government.

We can only conclude that this legislation would increase costs to the Government and have adverse long-term effects upon private credit facilities.

We recommend against the favorable consideration of S. 2499.

Sincerely,

SAMUEL E. NEEL,
Executive Vice President.

ESTIMATE OF ADDITIONAL COSTS TO GOVERNMENT OF FUNDING THROUGH
PARTICIPATIONS

Total estimated additional cost of participation sales during year of sale of \$2,185,000, or 0.624 of principal amount.¹

Recurring annual expense for 15-year estimated maturity of participation certificates is \$2,185,000 (less underwriter's expense of \$1,155,000) or \$1,030,000, which equals 0.294 percent of principal amount.¹

Fiscal 1966 sales of \$3 billion times 0.00624 equals \$20,592,000.

Fiscal 1967 sales of \$4 billion times 0.00624 equals \$29,571,360.

Recurring annual expense for both equals \$8 billion times 0.00294 percent times 14 equals \$331,173,360. Total for 15 years: \$381,336,720.

We believe there is a reasonable expectation that the difference between Treasury borrowing costs and rates on participation certificates will widen from the 0.25 used in this example as the quality of loans in the pool declines—actually, or in the investor's opinion.

¹ Using figures from Government Accounting Office report.

The CHAIRMAN. We will go into executive session. All those not entitled to the floor will please retire.

(Whereupon, at 11:10 a.m., the committee continued in executive session.)

(The following material was submitted for inclusion in the record:)

[Excerpts from the Presidential Message entitled "Private Financing of Credit"]

LETTER OF TRANSMITTAL

THE WHITE HOUSE,
Washington, April 20, 1966.

HON. HUBERT H. HUMPHREY,
President of the Senate,
Washington, D.C.

DEAR MR. SPEAKER: I have the honor to transmit the "Participation Sales Act of 1966." This important legislation is designed to forward our objective of substituting private for public credit.

For many years the Federal Government has carried on lending programs to finance essential activities which would not otherwise receive adequate financial support. Under these programs direct loans are made to help the farmer, the businessman, the home buyer, the veteran, the student, our colleges, and our schools. As of June 30, 1965, the volume of these Federal loans exceeded \$33 billion.

Desirable as these activities are, Federal lending neither can, nor should, shoulder the entire job.

Under our system of free enterprise it is far better for the Government to mobilize private capital to these ends; and it is far better for the Government to stimulate and supplement private lending rather than to substitute for it.

To do this, we sell Federal loans directly, or in some cases, sell "participations" in pools of loans, to private investors. The Government acts as both middleman and underwriter for the loans, assuring adequate and economical financing for desirable projects while at the same time attracting the maximum participation of private investors.

This substitution of private for public credit provides sound financing for worthwhile projects with a minimum of Federal participation.

In encouraging private participation in Federal credit programs, I am building on the outstanding work begun and carried forward by:

President Eisenhower's administration.

The 1958 Commission on Money and Credit, chaired by Frazar B. Wilde and of which Secretary of the Treasury Fowler and many other distinguished citizens were members.

President Kennedy's 1962 Committee on Federal Credit Programs, under the chairmanship of former Secretary of the Treasury Dillon.

The substitution of private for public credit has many advantages:

It makes more effective use of the taxpayers' dollar.

It offers the private investor an opportunity for sound investment and a fair return.

It benefits business and those of our citizens who are helped by the vital programs made possible both by Federal and private investment.

In the fiscal year we expect to replace a total of \$3.3 billion in public credit with private credit. In fiscal 1967, with the help of legislation such as the proposal I am submitting today, we believe that private credit can be substituted for public credit, advantageously to all concerned, in the amount of approximately \$4.7 billion.

As private credit is introduced on an increasing scale, the need to coordinate the sales of Federal loans also increases. It would defeat the purpose of improving the operation of the credit market if loans offered under particular programs interfered with each other or with the orderly financing of the public debt through the sale of Treasury securities.

The Participation Sales Act of 1966 will help solve this problem in two important respects:

First, instead of the Government making a number of relatively small and uncoordinated offerings of loans in the market, the act provides for pooling

many loans together and selling participations in the pool. The pooling of mortgages and loans and the sale of participations in the income and repayments from loans in the pool is not new. It has been used to advantage over the past several years by the Export-Import Bank, the Veterans' Administration, and the Federal National Mortgage Association.

Second, this legislation would extend the pool participation technique to other lending programs, including:

- Farmers Home Administration.
- Office of Education.
- College housing.
- Public facilities loans.
- Small Business Administration.

The pool technique adopted by this legislation has a number of advantages:

It assures the Government the best possible return on the sales of financial assets.

It provides the investor with a widely accepted and highly desired asset.

It provides a means for attracting private participation in loans made with relatively low-interest rates for special purposes.

It reaches sources of capital which would not be available for loans or mortgages offered individually, thus widening the reservoir of credit for vital projects.

The proposed legislation has two other major provisions.

1. Rather than have each of the agencies concerned conduct their own separate sales programs, the sale of participations would be centralized in a single agency—the Federal National Mortgage Association. This agency has already built up extensive experience with this technique in its mortgage pooling operations.

Individual agencies would continue to administer their credit programs, but the pooling of credits and sales of participations in the pools would be handled by the Federal National Mortgage Association. This centralization will greatly increase the efficiency of the sales operation and help coordinate this program with the Treasury's debt management operations.

2. In many cases the Congress has established Federal credit programs in which the interest rate charged to the borrower is below the market rate. The difference represents a net charge to the taxpayer. The act provides that, in all such cases, the Appropriations Committees of both Houses must authorize, in advance, the amounts of participations which could be sold against these assets. In this way, the safeguards of the annual appropriations process can be applied to this aspect of the program.

The Participation Sales Act of 1966 will permit us to conserve our budget resources by substituting private for public credit while still meeting urgent credit needs in the most efficient and economical manner possible.

It will enable us to make the credit market stronger, more competitive, and better able to serve the needs of our growing economy.

But, above all, the legislation will benefit millions of taxpayers and the many vital programs supported by Federal credit. The act will help us move this Nation forward and bring a better life to all the people.

I am enclosing a joint memorandum from the Secretary of the Treasury and the Director of the Bureau of the Budget which discusses in detail the major features of this legislation.

I urge speedy enactment of this legislation.

Sincerely,

LYNDON B. JOHNSON.

* * * * *

APRIL 19, 1966.

MEMORANDUM FOR THE PRESIDENT

This memorandum was prepared to provide you with background concerning the "Participation Sales Act of 1966." We recommend that you transmit the legislation to the Congress.

The proposed legislation is designed to implement your recommendation in the budget message relating to the substitution of private for public financing in various Federal credit programs. Specifically, the draft bill would provide for a coordinated program, through the Federal National Mortgage Association, of sales of participations in pools of financial assets held by various Federal agencies.

The basic purpose of the proposed legislation, as indicated, is to encourage the substitution of private for public credit in various major Federal credit programs. Given the desirability of drawing in greater private participation in the Federal credit programs, the sale of interests in pools of assets is the most satisfactory and economical means that has been devised to meet this end. The program of asset sales also facilitates the efficient use of budgetary funds.

The technique now proposed for sales of assets have evolved gradually during the past three administrations, stretching back in time to the mid-1960's. Both the Commission on Money and Credit, which produced its distinguished report in 1961, and President Kennedy's Committee on Federal Credit Programs, which was chaired by Secretary Dillon, recommended that vigorous efforts should be made to encourage private participation in Federal credit programs. A similar point was made in a minority report of the House Ways and Means Committee in 1963, which urged an expansion of the Federal Government's asset sales.

A guiding principle of these programs is that Federal credit should supplement or stimulate private lending rather than substitute for it. This is a matter of basic economic philosophy, as well as a recognition of the fact that the private market should, and will, continue to account for the bulk of all credit extensions.

Federal credit programs, working through the private market, help to make the market stronger, more competitive, and better able to serve the economy's needs over the long term, than if the Federal credit programs unnecessarily preempted functions that private lenders could perform effectively. In addition, use of private market facilities frequently can ease the problem of administering Government programs and make Government aid, where appropriate, more available to potential borrowers.

Carrying through these principles and recommendations, increased emphasis has been placed in recent years on greater use of Government guarantees of private credit and on direct sales of individual Government loans to private lenders. More recently, sales of individual loans have been supplemented by pooling large numbers of loans and selling certificates of participation in such pools.

But the use of this efficient technique, the Export-Import Bank of Washington has been able, since 1962, to sell about \$1.7 billion of its direct loans which otherwise might not have been marketable. The Federal National Mortgage Association, acting as trustee under authority granted by the Housing Act of 1964, has been able to sell \$1.6 billion of participation certificates (including their current offering) in pools of housing mortgage loans set aside by its management and liquidation and special assistance functions and by the Veterans' Administration.

Even with these major efforts to draw on private credit, the volume of direct Federal loans outstanding has increased in recent years. It was \$25.1 billion on June 30, 1961, and \$33.1 billion on June 30, 1965. The estimated level for June 30, 1966, is \$33.3 billion assuming completion of the sales indicated in the latest budget document. Under the proposed program of asset sales, the volume of direct Federal loans outstanding would decline to \$31.5 billion on June 30, 1967.

The increase in asset sales largely arises from broadening the program, as proposed in your 1967 budget, to include sales of participation in assets of the Farmers Home Administration, the Office of Education, the college housing program, the public facility loan program, and the Small Business Administration.

The centralization of the participation sales activity in FNMA, by building on an already successful body of market experience, will help to assure the orderly and most economical sale of this paper. It will also assure the effective coordination of these offerings, not only with one another but also with the Treasury's own debt management operations. The alternative of having each of the agencies involved conduct its own sales operation would greatly complicate the coordination problem, would produce a wasteful duplication of efforts, and would result in a less effective and more costly operation for the Federal Government. Under the guidance of FNMA, the asset sales undertaken for newer programs, less well known to the market, would gain the benefit of seasoning and experience that has been built up already through the FNMA operations.

Another advantage of the pool arrangements goes back to the fact that a number of sound Federal loans carry interest rates significantly below levels at which private lenders would be willing to invest their funds in the present mar-

ket. These rates, in many cases, have been written into the legislation setting up the programs. While the relatively low rates do not make the loans any less sound, these rates do mean that such loans could be sold directly to private investors only at substantial discounts.

The proposed legislation would make it possible to include such loans in marketable pools by providing, in effect, means for the agency owning the loans to make supplementary payments to the trustee of the pool to cover the interest insufficiency. The supplementary payments would be subject to the effective approval of the Appropriations Committees since these committees would authorize the amounts of any issues of participations on which supplementary payments are likely to be required. Section 2(b)(4) of the bill specifically provides that the amount of any such participation issues be within aggregate principal amounts authorized in advance in appropriation acts.

A further advantage of the pool arrangements is in their ability to draw into the financing of public credit programs practically all sectors of the capital markets. Many segments of the market cannot deal in individual mortgages. Other sectors are not able to purchase individual business or college housing loans. But almost all segments of the market are potential investors in pool certificates. Two consequences flow from this: first, the market for a number of particular types of credit instruments is substantially broadened; and, second, sales of participations do not disrupt particular segments of the capital markets, as might be the case if the mortgages or loans were sold individually.

It has been pointed out on some occasions that the sale of Federal credit program financial assets, whether through participation certificates or other means, is more expensive than financing through the direct issue of Treasury obligations. This is true, although the cost difference has proved to be relatively minor. For example, FNMA participation certificates have been sold at rates roughly one-fourth of 1 percent above Treasury issues of comparable maturity; and it is entirely possible that the margin may diminish as the market gains experience with these high-quality credits.

Moreover, carried to its logical conclusion, this argument would have the Treasury financing directly all of the Federal insurance and guarantee programs, since it can obviously do this more cheaply than the private market. Other types of credit, now handled entirely in the private market, could also be financed more "cheaply" by the U.S. Treasury. We certainly wish to retain, however, the principle that the allocation of credit for essentially private purposes should be a function of the private market. That was the philosophy of the Commission on Money and Credit and of the President's Committee on Federal Credit Programs. It is a sound philosophy, and I believe we should continue our efforts to strengthen the private market as a means for achieving program objectives with a minimum of Government interference.

For the reasons stated above, we recommended that you transmit the attached bill to the Congress and urge its speedy passage.

HENRY H. FOWLER,
Secretary of the Treasury.

CHARLES L. SCHULTZE,
Director, Bureau of the Budget.

SECTION-BY-SECTION SUMMARY OF THE PARTICIPATION SALES ACT OF 1966

General

The bill would broaden and make available on a governmentwide basis authority for the sale of participations in pools of financial assets now owned by Federal credit agencies. This would be accomplished by revising the authority provided in 1964 under which the Federal National Mortgage Association as trustee sells certificates of participation in pools of assets set aside by the Veterans' Administration and by the special assistance functions and the management and liquidating program of FNMA, and by making related changes in statutes of other agencies to permit such agencies to make use of participation sales methods.

Section 1. Short title

The bill would be cited as the "Participation Sales Act of 1966."

Section 2. Amendments to section 302(c) of the Federal National Mortgage Association Charter Act

Subsection (a) would amend existing section 302(c) of the Federal National Mortgage Association Charter Act to accommodate the provisions of new paragraphs (2), (3), and (4). The first and second amendments are technical. The purpose of the third amendment is to qualify for inclusion in participation trusts, securities held by various Government agencies even though they may not be within the technical definition of obligations. The fourth amendment would exempt participation certificates issued pursuant to this act from all regulation by the Securities and Exchange Commission. The fifth amendment would repeal the existing authority for appropriations to offset differentials arising from the issuance of participations based on below-market interest rate mortgages insured under section 221(d)(3) of the National Housing Act; this repeal is appropriate because of substitute arrangements provided in subsection (b) of section 2 of the bill.

Subsection (b) would add new paragraphs (2), (3), and (4), to section 302(c) of the FNMA Charter Act. New paragraph (2) would authorize the head of any executive department, agency, or instrumentality of the United States to set aside a part or all of any financial assets held by him, subject them to a trust or trusts, and to guarantee to the trustee the timely payment of principal and interest on the assets so set aside. Under the trust instrument FNMA would act as trustee, and title to the obligations so set aside would be deemed to have passed to FNMA in trust. The custody, control, and administration of the obligations, however, would remain in the trustor, subject to transfer in event of default in the payment of principal and interest of the related participation certificates issued by the trustee. The trust instrument would require the trustee to pay promptly to the trustor the full net proceeds of any sale of participations, and require the trustor to treat the proceeds as otherwise provided by the law for direct sales or repayments of such obligations. To facilitate liquidation of assets because of prepayments or defaults and to release assets for direct sale, any trustor would be authorized, through the facilities of the trustee, to acquire outstanding participation to the extent of his responsibility to the trustee. Any trustor would also be authorized to pay his proper share of the costs and expenses incurred by the trustee.

New paragraph (2) would also specifically exempt any such trusts from all taxation. This, in effect, would categorize the trust as a corporation and exempt its income from tax. Since the trust is a corporation, the income received by the participation holders would be taxable dividends, even if part of the income earned by the corporation would have been tax exempt if owned directly by an investor.

New paragraph (3) would authorize any trustor to fulfill his guarantee of the timely payment of obligations subjected to a trust by using any appropriated funds or other amounts available to him for the general purposes of programs to which the obligations subjected to the trust are related.

New paragraph (4) would expressly authorize FNMA, as trustee, to issue and sell participations even if the aggregate receipts from obligations subject to the related trust are insufficient to permit the payment by the trustee of all interest or principal on the participations. However, the trustee cannot issue participations unless it determines there is a reasonable probability that the aggregate receipts from the obligations will not be insufficient, or unless the amounts of participations issued are within aggregate principal amounts authorized in advance in appropriation acts. Authority is given to include provisions authorizing the issuance of such participations in an appropriation act.

When the amounts of participations to be issued are authorized in an appropriation act or acts, indefinite appropriations would be established on the books of the Treasury in the amounts necessary to enable the trustor to effect timely payment to the trustee of any insufficiencies on account of outstanding participation. The trustor would be required to make timely payments to the trustees from such appropriations. Thus, purchasers of participations would be assured of timely payments of principal and interest without further action by the Congress.

Section 3. Reductions in new obligational authority

Subsection (a) amends section 305(c) of the FNMA Charter Act by reducing by \$450 million the aggregate potential authority of FNMA to purchase mortgages under its special assistance functions.

Subsection (b) would amend section 401(d) of the Housing Act of 1950 by reducing by \$300 million the borrowing authority of the college housing loan program. Both reductions are made possible by increased sales of participation certificates in existing loans.

Section 4. Office of Education revolving loan fund provisions

Subsection (a) of this section would amend section 303(c) of the Higher Education Facilities Act of 1963 to provide that appropriations for making academic facility loans would now be payable into the fund to be established by subsection (b) of this section.

Subsection (b) would add a new section 305 to the Higher Education Facilities Act of 1963 establishing a separate revolving fund for higher education academic facilities loans, available without fiscal year limitations. The total of new loans made from the fund in any fiscal year would be subject to limitations specified in appropriation acts. All appropriations available for academic facilities loans and all receipts from operations and from participation sales would be deposited in the fund. All loans, expenses, and payments would be paid from the fund, including expenses and payments to the Federal National Mortgage Association in connection with the sale of participations. The Commissioner would be required to pay from the fund into the Treasury interest on the net amount of appropriations used by the fund.

Section 5. Farmers Home Administration direct loan account provisions

Section 5 would amend section 338(c) of the Consolidated Farmers Home Administration Act of 1961 to transfer to the direct loan account watershed protection and flood prevention loans, rural renewal loans, and resource conservation and development loans not now financed through revolving funds. The intent is to include among the loans eligible for pooling under section 2 all loans made by the Farmers Home Administration (including not only those in the direct loan account, but also those in the emergency credit revolving fund, rural housing direct loan account, agricultural credit insurance fund, and the rural housing insurance fund).

Section 6. Preservation of existing Veterans' Administration authority

Section 6 would make it clear that nothing contained in this bill should be construed to repeal or modify the existing authority of the Administrator of Veterans' Affairs to enter into trust arrangements comparable to those contemplated by this bill. The intent of this section would be to authorize the Administrator of Veterans' Affairs to enter into trust arrangements either under the provisions of this bill, or under the provisions of section 1820(e) of title 38, United States Code.

BUREAU OF THE BUDGET,
Washington, D.C., April 29, 1966.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: You have inquired whether there is any intention on the part of the Administration to seek the congressional authorization which would be required to include any rural electrification or telephone loans in participation pools established under the provisions of the Participation Sales Act of 1966.

As you know, the President has proposed legislation to establish Federal banks for rural electrification and telephone systems in order to provide supplementary financing for the Rural Electrification Administration program. We believe that favorable congressional action on this proposed legislation will assure a fully adequate supply of credit to meet the needs of rural electric and telephone cooperatives.

I can assure you that in no event under the legislation now before your committee will any participations be sold in any REA loans.

Sincerely yours,

CHARLES L. SCHULTZE,
Director, Bureau of the Budget.

Export-Import Bank of Washington sales of bank paper, fiscal year 1961 through fiscal year 1965

[In millions]

	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
Without recourse:					
For cash.....	14.1	38.8	80.8	63.3	87.5
Assignment of undisbursed obligations ¹	(2)	(2)	31.9	34.8	40.8
With recourse:					
Participation certificates (portfolio fund).....	0	300.0	250.0	372.5	450.0
Sales of specific maturities.....	0	0	5.0	0	36.4
Total.....	14.1	338.8	367.7	470.6	614.7

¹ Assumed by participants prior to disbursement by Eximbank.

² Not available.

Source: Office of the Controller, Apr. 29, 1966.

APRIL 29, 1966.

HON. A. WILLIS ROBERTSON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR ROBERTSON: The attached statement and proposed amendment to the Participation Sales Act to make its provisions inapplicable to the loan program operations under the Rural Electrification Act of 1936, as amended, is furnished at the request of Mr. Earl Shiflet, executive manager, Virginia Association of Electric Co-ops.

Sincerely,

IRA SHESSEB,
Legislative Research Coordinator.

EXCLUSION FROM THE PARTICIPATION SALES ACT OF 1966 OF OBLIGATIONS
ISSUED PURSUANT TO THE RURAL ELECTRIFICATION ACT OF 1936 AS NOW
OR HEREAFTER AMENDED

The rural electrification program was established by Executive order in 1935 to provide financial assistance in bringing central station electric service to the unserved rural areas of the United States.

From its inception, the rural electrification program was set up to serve—and does serve—a social as well as an economic purpose by raising the working and living standards of the people of rural America. In 1936, Congress enacted the Rural Electrification Act giving statutory authority to this program. The present 2-percent interest rate charged for REA loans was written into the law in 1944. The rural electric cooperative systems established by farmers and other rural residents of the United States have utilized the financing made available under the Rural Electrification Act, to provide modern, efficient electric supply systems in their rural areas.

This job has been carried on amidst great difficulties and continues to be a challenge to the dedicated men and women of the rural electrification program. Today these systems serve the less densely populated areas of the country and require a high plant investment on which there is a very low monetary return.

The Federal Government holds approximately \$3.5 billion of obligations from rural electrification borrowers, and about \$700 million of obligations of rural telephone borrowers. These obligations all carry a 2-percent interest rate. To include these low-interest-earning holdings in the proposed Participation Sales Act would require an extremely large annual appropriation by the Congress to make up the interest deficiency which would arise from the sale of participations at the current market interest rates, which are now at a level of between 5¼ and 5½ percent. Interest rates have been at a high level for a number of

years, and in all likelihood may continue to remain so for a substantial period of time.

In addition, there has been proposed legislation submitted by the administration to amend the Rural Electrification Act to establish Federal Banks for rural electric and telephone systems to provide supplementary sources of capital for REA borrowers. This legislation is patterned after operations of the existing farm credit system and follows proposals which have been endorsed by the rural electric cooperatives. Under the proposal submitted by the administration, the proposed banks would have authority to issue up to \$10½ billion of debentures. Similar legislation introduced in the House by Representative Poage, of Texas, H.R. 14000, would authorize Federal electric and telephone banks to issue up to \$12½ billion of debentures for program purposes. The obligations proposed to be issued under this legislation will not be direct obligations of the Government, would not be expressly guaranteed by the Government, and would not be counted as part of the public debt or included in the Federal administrative budget. Further, it is the intention that the banks to be established under this proposed legislation would eventually become institutions wholly owned and operated by their borrowers. Any possible construction of language of the Participation Sales Act which would suggest that obligations of these banks be subject to its provisions could jeopardize the operations of these banks.

I am proposing to amend the Participation Sales Act by adding a new section, specifically excluding from the provisions of this bill any obligations issued to the United States pursuant to the provisions of the Rural Electrification Act of 1936, as amended. The text of this amendment follows:

"Sec. 9. This Act shall not apply to any obligations issued to the Rural Electrification Administration, its Administrator, or to any other officer, agency or instrumentality of the United States, pursuant to the Rural Electrification Act as now or hereafter amended."

UNITED STATES SAVINGS & LOAN LEAGUE,
April 29, 1966.

Hon. A. WILLIS ROBERTSON,
Chairman, Senate Banking and Currency Committee,
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: We have noted that the Senate Banking and Currency Committee yesterday approved the administration's proposal with respect to the sale of participations in certain Government-held loans. It is our understanding that such participations will be sold to institutional investors and other large savers. We believe that some minimum size, such as \$25,000 or \$50,000, should be established.

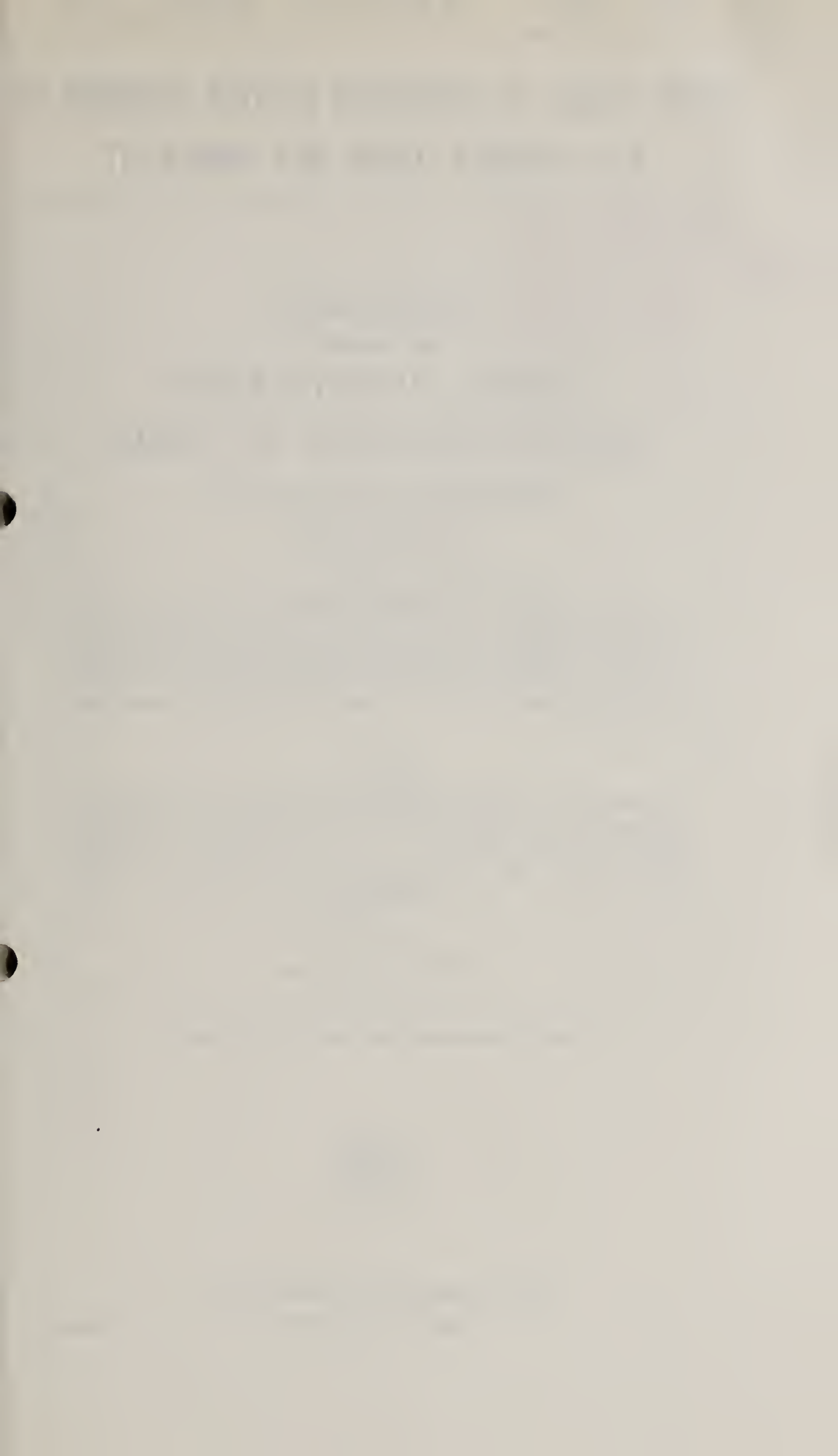
We are anxious that these participations not compete in any way for the ordinary savings which now go into savings and loan associations and other financial institutions. As you know, savings competition is at an alltime high and many savings institutions are suffering their worst losses in savings. Certainly, we would not want the new program to add further to the turmoil.

We would hope that either the Committee report or your statement on the Senate floor would emphasize that only large blocks of participations will be sold and that there will be no competition with the typical passbook type savings.

Sincerely,

STEPHEN SLIPHER,
Legislative Director.

○



TO PROMOTE PRIVATE FINANCING OF CREDIT NEEDS TO AMEND THE SMALL BUSINESS ACT

HEARING

BEFORE THE

COMMITTEE ON RULES

HOUSE OF REPRESENTATIVES

EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 14544

TO PROMOTE PRIVATE FINANCING OF CREDIT NEEDS
AND TO PROVIDE FOR AN EFFICIENT AND ORDERLY
METHOD OF LIQUIDATING FINANCIAL ASSETS HELD BY
FEDERAL CREDIT AGENCIES, AND FOR OTHER PURPOSES

AND

S. 2499

TO AMEND THE SMALL BUSINESS ACT TO AUTHORIZE
ISSUANCE AND SALE OF PARTICIPATION INTERESTS
BASED ON CERTAIN POOLS OF LOANS HELD BY THE
SMALL BUSINESS ADMINISTRATION, AND FOR OTHER
PURPOSES

MAY 4 AND 5, 1966

Printed for the use of the Committee on Rules



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TO PROMOTE PRIVATE FINANCING OF CREDIT NEEDS—TO AMEND THE SMALL BUSINESS ACT

WEDNESDAY, MAY 4, 1966

HOUSE OF REPRESENTATIVES,
COMMITTEE ON RULES,
Washington, D.C.

The committee met, pursuant to notice, at 10:45 a.m., in room H-313, the Capitol, the Honorable Howard W. Smith (chairman) presiding.

Present: Representatives Smith of Virginia (presiding), Madden, Delaney, Trimble, O'Neill, Young, Pepper, Smith of California, Anderson, Martin of Nebraska, Quillen, and Latta.

Also present: Laurie C. Battle, counsel; Mary Spencer Forrest, assistant counsel; and Robert D. Hynes, Jr., minority counsel.

The CHAIRMAN. The committee will be in order.

We will take up H.R. 14544, which is the sales participation bill—and Mr. Patman has expressed a desire to discuss it—and at the same time the related bill, which is S. 2499, but which covers a smaller area of just the Small Business Administration.

Mr. PEPPER. Mr. Chairman, I know we all take pleasure to note the return of our distinguished colleague, Mr. Delaney.

The CHAIRMAN. We missed him very much, and we are glad to see that he is looking so much better.

Mr. PEPPER. Yes, both.

And I wish to say congratulations to Mr. Madden.

Mr. YOUNG. Congratulations to Mr. Madden and Mr. Pepper, re-nominated yesterday.

Mr. MARTIN. It was a hard race, was it not, Ray?

Mr. MADDEN. I am all out of breath.

The CHAIRMAN. Mr. Patman, you may now proceed, since the preliminaries are being over with.

(H.R. 14544 and S. 2499 follow:)

[Union Calendar No. 629]

89TH CONGRESS
2D SESSION

H.R. 14544

[Report No. 1448]

IN THE HOUSE OF REPRESENTATIVES

APRIL 20, 1966

Mr. PATMAN introduced the following bill; which was referred to the Committee on Banking and Currency

APRIL 25, 1966

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Participation Sales Act of 1966".

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

(1) by inserting "(1)" immediately following "(e)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking out the words "offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency" in the first sentence thereof and by inserting "any other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations,' in which the United States or any executive department, agency,";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of the laws administered by the Securities and Exchange Commission."; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following:

"(2) ~~Notwithstanding any other provision of law,~~ Subject to the limitations provided in paragraph (4) of this subsection, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the "trustor", is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, ~~may~~ shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. ~~Notwithstanding any other provision of law,~~ the Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to

such obligations shall be deemed to have passed to the Association in trust: *Provided, That the* . The trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(3) If When any trustor ~~shall guarantee~~ *guarantees* to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(4) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that aggregate receipts from obligations subject to the related trust are or may become insufficient in amount to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors): *Provided, That* no such beneficial interests or participations shall be issued in relation to any obligations unless the trustee determines there is a reasonable probability there will not be an insufficiency as aforesaid; or unless the amounts issued are within aggregate principal amounts authorized in advance in appropriation Acts; and it shall be in order to include provisions authorizing such issuance in an appropriation Act. Whenever such an aggregate principal amount is so authorized, there shall be established on the books of the Treasury as indefinite appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations; and such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

"(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available until used.

"(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). Whenever the issuance of an aggregate principal amount is authorized pursuant to paragraph (4) of this subsection, such an authorization in an appropriation act shall establish on the books of the Treasury as appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

SEC. 3. (a) Section 305(e) of the Federal National Mortgage Association Charter Act is amended by deleting "by \$450,000,000 on July 1, 1966,".

(b) Section 401(b) of the Housing Act of 1950 is amended by deleting "1968:" immediately preceding the first proviso and by substituting therefor "1965, and 1967 and 1968:".

SEC. 4. (a) Section 303(e) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: "For the purpose of making payments into the fund established under section 305".

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called "the fund") which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts.

"(b) (1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with sale, under section 302(e) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury.

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence "and (8)" and inserting in lieu thereof "(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(c) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)"; and by inserting in the fifth sentence after "title," the following: "section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,".

SEC. 6. Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

SEC. 7. Paragraph (7) of section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended to read:

"(7) to invest its funds (A) in loans exclusively to members; (B) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Government corporation; or in obligations, participations, or other instru-

ments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;"

SEC. 8. The Secretary of the Treasury, in consultation with heads of agencies of the United States carrying on direct loan programs, shall conduct a study, in such manner as he shall determine, on the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs and shall report his findings together with specific legislative proposals to the Congress not later than six months after the effective date of this Act. There are authorized to be appropriated such sums as necessary for the purpose of this section.

Union Calendar No. 628

89TH CONGRESS
2D SESSION

S. 2499

[Report No. 1447]

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1966

Referred to the Committee on Banking and Currency

APRIL 25, 1966

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

AN ACT

To amend the Small Business Act to authorize issuance and sale of participation interests based on certain pools of loans held by the Small Business Administration, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5(b) of the Small Business Act is amended by deleting the word "and" at the end of paragraph (8), by deleting the period at the end of paragraph (9) and inserting in lieu thereof a semicolon, and by adding at the end thereof two new paragraphs as follows:

"(10) ~~notwithstanding any other provision of law,~~ issue, offer, sell, guarantee, and purchase participation certificates evidencing a beneficial interest in principal and interest collections to be received by the Administration on obligations comprising loan pools established by it. Proceeds from the sale of, and collection receipts allocable to, the participations shall be deposited in, and payments required on account of the certificates evidencing such participations shall be made from, the revolving fund established by section 4(c), or, if two or more such funds shall be so established, the deposits in, and payments from, such funds shall be on the same proportional basis as the obligations, comprising the pool against which the participations were issued, are allocable to such funds. Substitution or withdrawal of obligations in such pools may be made, but the amount, interest rates, and maturities of such obligations shall at all times be sufficient to assure all payments under the participations. Participations issued and guaranteed by the Administration shall be lawful investments, and may be accepted as security for all

fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority and control of the United States or any officer or officers thereof. Such participations shall also to the same extent as securities issued or guaranteed by the United States or its instrumentalities be deemed to be exempt securities within the meaning of the laws administered by the Securities and Exchange Commission, and the limitations and restrictions contained in paragraph Seventh of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), with respect to the power of any national banking association to deal in, underwrite, and purchase for its own account certain securities, shall not apply to such participations; and

"(11) ~~notwithstanding any other provision of law,~~ set aside a part or all of the obligations held by him and subject them to a trust and, incident thereto, guarantee payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations, but the amount, interest rates, and maturities of such obligations shall at all times be sufficient to assure all payments under the participations. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this paragraph. ~~Notwithstanding any other provision of law, the~~ The Federal National Mortgage Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed in trust: ~~Provided, That the.~~ The trust instrument shall provide that custody, control, and administration of the obligations shall remain in the Administrator subject to defeasance in the event of default or probable default, as determined by the trustee, in the payment of the beneficial interests or participations. Notwithstanding the provisions of section 4(c) hereof relating to the payment of collections into any revolving fund established by such section, collections from obligations subject to the trust shall be dealt with as provided by the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the Administrator the entire proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. The Administrator shall deposit such proceeds in the revolving fund, or, if two or more such funds shall be established, the Administrator shall deposit such proceeds in such funds on the same proportional basis as the obligations, which are subject to the trust, are allocable to such funds. The Administrator is authorized to purchase outstanding beneficial interests or participations to the extent of the outstanding amount of his commitment to the trustee. In the event that collections from obligations subject to the trust are insufficient to enable the Administrator to meet any of his responsibilities with respect to such beneficial interests or participations the Administrator may utilize, for the purpose of meeting such responsibilities, sums available in the revolving fund, or, if two or more such funds shall be established, the Administrator may utilize amounts available in such funds on the same proportional basis as the obligations, which are subject to the trust, are allocable to such funds. There are hereby authorized to be appropriated to such revolving fund or funds any amounts not otherwise available therein as may be required to enable the Administrator to meet any of his responsibilities with respect to beneficial interests or participations based on obligations set aside by the Administrator pursuant to this subsection."

SEC. 2. Section 5 of the Small Business Act is amended by adding at the end thereof a new subsection as follows:

"(e) Certificates issued in connection with the sale of beneficial interests or participations under paragraph (10) or (11) of subsection (b) shall bear appropriate language clearly indicating that such certificates, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than the Administration or the Federal National Mortgage Association, as the case may be."

SEC. 3. The first sentence of section 302(c) of the National Housing Act is amended by striking out "offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages".

Sec. 4: Section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended by adding after "wholly owned Government corporation;" the following: "or, (F) in participation certificates evidencing a beneficial interest in principal and interest collections to be received by Government agencies on obligations comprising loan pools when the agency issuing, offering or selling the certificates has set aside a part or all of the obligations held by it and subjected them to a trust for which the Federal National Mortgage Association or some other Government agency has been named to act as trustee;".

Sec. 4. Section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended (1) by striking out "or" immediately before "(E)", and (2) by adding after "wholly owned Government corporation;" the following: "or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;".

Passed the Senate March 15, 1966.

Attest:

EMERY L. FRAZIER,
Secretary.

STATEMENT OF HON. WRIGHT PATMAN, A MEMBER OF CONGRESS FROM THE FIRST DISTRICT OF TEXAS

Mr. PATMAN. Thank you, sir.

Of the two bills mentioned, Judge, one is what you might call a comparatively small bill. It would allow SBA to make certain sales between now and June 30. That is the second bill. But we would like to have it; it is related to the first one, and we hope by considering the first one, there will be consideration of the second one, too, sir.

Mr. Chairman, H.R. 14544, the Participation Sales Act of 1966, is a sensible and worthwhile legislative proposal. This bill is needed if many necessary programs are to continue.

The military and political realities of the day are justifiably asking and making substantial demands on our public revenues. No one will deny that our national security comes first.

As a result, however, congressional policies of longstanding and proven worth will very definitely be frustrated if adequate financing is unavailable.

This bill will serve this need and at the same time, this fact should not be minimized, it would increase the participation of private lenders and Government sponsored credit programs by making these sound loans attractive as sound investments.

As the bill itself, and the committee report clearly shows, H.R. 14544 is very definitely not another type of Government financing program on top of existing programs. It is anything but that.

At this very moment, the Federal Government has outstanding over \$33 billion in direct loans. This huge sum is composed of farm loans, educational loans, housing loans, public-facility loans, small-business loans, and others.

Pretty soon, unless this measure is enacted, Federal agencies will be holding as much securities as the Federal Reserve System, which now exceeds \$40 billion.

Sound and prudent public administration demands that such unnecessarily large holdings be liquidated.

The Government, in carrying out congressional policies, must be in a position to turn over its loan inventory. By so doing, the financial

needs of many, many worthy borrowers are met and private investors will be encouraged to serve these needs directly themselves.

The mechanics are very simple. The Government agencies holding these loans will merely transfer legal title to——

The CHAIRMAN. Mr. Patman, will you pardon an interruption?

Mr. PATMAN. Yes, sir.

The CHAIRMAN. You just said that the mechanics of this are very simple.

Mr. PATMAN. Yes, sir.

The CHAIRMAN. And, as a matter of fact, I did not find it that way according to the bill.

Now, I spent a couple of hours last night on this bill and I spent some time on it before because I wanted to understand just what it did and how it did it. To say that it is simple just does not cover the whole situation.

Mr. PATMAN. Well, you have not heard what I said about it yet, Judge. I made the statement—now I want to back it up.

The CHAIRMAN. All right.

Mr. PATMAN. All right.

The CHAIRMAN. I am glad you are because that troubles me.

Mr. PATMAN. The Government agencies holding these loans will transfer legal title to the Federal National Mortgage Association, FNMA, as it is properly known——

The CHAIRMAN. That is all of them?

Mr. PATMAN. That is trustees; yes, sir.

The CHAIRMAN. All of the loans that are outstanding——

Mr. PATMAN. Transferred.

The CHAIRMAN. With any agency; is that right?

Mr. PATMAN. Yes, sir.

The CHAIRMAN. Yes.

Mr. YOUNG. All \$33 billion of them?

Mr. PATMAN. Any number that is eligible under this.

Mr. YOUNG. Well, but it is only—if the gentleman will yield——

Mr. PATMAN. Yes. Under the——

Mr. YOUNG. Only the ones you are actually discounting are transferred, not all the total indebtedness?

Mr. PATMAN. That is correct. You are entirely correct.

The CHAIRMAN. I did not get that, Mr. Young.

Only what will be transferred?

Mr. YOUNG. Just the ones they are going to rediscount, or whatever it is they are handling.

The CHAIRMAN. They will do that from time to time, is that right?

Mr. PATMAN. Those in the budget. It will run to about \$7 or \$8 billion for the 2 fiscal years.

Mr. MARTIN. The way the bill is written, there is no limit as to what can be transferred, is that correct?

Mr. PATMAN. It would be available to all agencies, but it is in the budget, you know, as to the amount that is contemplated.

Because of FNMA's successful experience over a number of years in marketing participations and loan portfolios there is little doubt but that private funds can be brought into these loans programs in the most efficient and economical way.

Loans received from the agencies will be pooled by FNMA and sold to private investors.

Experience has shown that individual agencies in attempting to sell their own loans directly have not been nearly as successful as has FNMA operating through participating pools.

This FNMA way is a tried and proven procedure.

That is the essence of this proposal, Mr. Chairman, the mechanical procedure for the orderly disposition of Government holdings. It is not a new financing method at all.

Furthermore, the procedure provided in this bill would be subject to strict congressional controls. In the first place, the moneys for these programs were appropriated funds. Section 2(b) (4)——

The CHAIRMAN. Mr. Patman?

Mr. PATMAN. Yes, Judge?

The CHAIRMAN. I hate to keep on interrupting——

Mr. PATMAN. That is all right, Judge, perfectly all right as far as I am concerned.

The CHAIRMAN. But you said that it had worked perfectly with FNMA.

Mr. PATMAN. Yes, sir; it did.

The CHAIRMAN. Now, FNMA has been doing this same thing——

Mr. PATMAN. Yes, sir; for some time.

The CHAIRMAN. Bunching them up and issuing participation——

Mr. PATMAN. Yes, sir.

The CHAIRMAN. A specific group of loans?

Mr. PATMAN. That is right. Of course, principally housing.

The CHAIRMAN. Yes, of course.

Now, under what authority did they do that?

Mr. PATMAN. We had a bill in 1964 and one in 1965, a housing bill each year, and the Senate placed on an amendment allowing participation certificates to be sold in 1964. In conference, the House was persuaded to accept it, and that conference report with participations in it was adopted by both Houses unanimously in 1964——

The CHAIRMAN. Yes.

Mr. PATMAN (continuing). Without a record vote.

Now, in 1965, the same thing occurred.

The CHAIRMAN. How much of that has been done?

Mr. PATMAN. Well, quite a bit of it. I do not know——

The CHAIRMAN. Now, if that is true——

Mr. PATMAN. About \$1.6 billion.

The CHAIRMAN. Yes.

Mr. MARTIN. Where was that?

The CHAIRMAN. If they have done that, why do they need this if they are already doing it?

Mr. PATMAN. Well, that was only for the housing, and this will embody the Small Business Administration, the Farmers Home Administration and other agencies.

The CHAIRMAN. Is that the basic difference?

Mr. PATMAN. It is the basic difference.

The CHAIRMAN. Between the present practice and the present law and this law, is that just to extend it to all of them?

Mr. PATMAN. They legalize it. In other words, they legalize a gap in there.

The CHAIRMAN. Yes.

Mr. PATMAN. It was already legalized——

The CHAIRMAN. Have you told me, they have already legalized it, and practice it?

Mr. PATMAN. The housing.

The CHAIRMAN. The housing thing now?

Mr. PATMAN. That is right; yes, sir.

The CHAIRMAN. Do you mind if I ask you one more question?

Mr. PEPPER. Will the participating certificates show which securities or which——

Mr. PATMAN. I do not think so.

Mr. PEPPER. All of them——

Mr. PATMAN. They are put in a pool, like a mutual fund, yes.

Did you want to ask a question?

Mr. PEPPER. I am sorry, Mr. Chairman.

The CHAIRMAN. Now, I forgot just what it was?

The question I was going to ask you is, Why could we not simplify this thing? What is troubling me is that I just cannot understand all the details of it from the language of the bill, and I have not read anything except the bill because the bill is the thing that is going to tell you what the law is after you get done legislating.

Mr. PATMAN. But, Judge, you know and I know that oftentimes a bill must be written in technical language, and it is not as understandable, but the staff has been very careful and the Members are very careful to make sure that they harmonize and are consistent.

The CHAIRMAN. But you and I both remember the time when the bills were written on the Hill instead of at the White House, and I think that is——

Mr. PATMAN. And we know the other time, too——

The CHAIRMAN (continuing). The way to do it.

Mr. PATMAN. Yes, sir; and know the other times when they were written down at the White House and it is both administrations, not just one.

The CHAIRMAN. Yes, I know, that has been the practice; it is not just one administration.

Mr. PATMAN. I know one time they brought a bill up here, a mimeographed bill, introduced it on the floor and passed it in 20 minutes. You do, too.

The CHAIRMAN. I do not remember that one. I remember the court-packing bill, too, when your colleague pulled it off the back of the President's message, reeled it off the back of the President's message, and dropped it in the box before anybody got a chance at it. That was the court-packing bill.

Mr. PATMAN. That one I do not ever think was put in the hopper.

In the first place, the moneys for these programs are from appropriated funds. Section 2(b)(4) of the bill specifically provides that the amount of any participation issues be within amounts authorized and advanced in appropriation acts.

There is certainly nothing back door about this bill. It is a front-door procedure for putting Government financial assistance on a sound financial basis, always subject to the will of Congress, to committees passing on it, the bill authorizing it and the appropriations committees that will have the power to even designate terms that must be met.

The Congress has complete control over it before they issue these certificates.

Now, Mr. Chairman, several of my colleagues, while agreeing in principle with everything I just said, have questioned the need for such a bill at this particular time.

I will answer that question by simply going back to a statement I made just a few moments ago.

The monetary demands on our Federal funds are great. Of that there is no question. No one can predict how long these demands will continue.

Furthermore, due to the current tight money policy of the Federal Reserve System, the Nation is suffering from a very pronounced money shortage.

Some particular segments of the economy are suffering quite severely.

Small business is an outstanding example. No direct loans have been made since last October.

For instance, the Small Business Administration was deluged with loan applications last fall from small business firms who were feeling the pinch of the Fed credit tightening, as a result of this increased demand, in combination with the necessity of meeting war financing needs first and foremost.

The SBA was forced to go into the market last month and sell other obligations it held in the hope of resuming its normal loan activities. It sold \$110 billion worth.

Unfortunately, the market reception was poor. These SBA securities were unfamiliar to the market. While they ultimately placed all the paper, the operation was both expensive and inefficient.

This would have been unnecessary had the procedure contemplated by this bill been in effect. It would be a vast improvement over current procedures engaged in by the agencies to attract funds to their worthwhile projects.

Your Banking and Currency Committee has made a careful and lengthy study of Federal credit programs beginning in 1963.

In 1964, there was published as a subcommittee print a carefully documented study of Federal credit programs. It is a wonderful book. Every Member of Congress should have it.

In March and April of this year, we conducted exhaustive studies and heard numerous witnesses on the subject of agency participation, particularly SBA. Not only were administration witnesses heard, but also representatives from the GAO. Letters were received from a number of private organizations on this matter, expressing their views.

This idea is certainly nothing new. It was not hastily conceived. Furthermore, a Republican administration may claim credit for the idea, which has been endorsed by the Commission on Money and Credit composed of many of the Nation's top businessmen as well as minority members of the House Ways and Means Committee in recent years.

This legislation will allow the Government to make more efficient use of its assets and its status in the money market.

H.R. 14544 would accomplish this objective, Mr. Chairman, and I urge this committee to grant this bill a rule.

I hope, Mr. Chairman, that you will give us a rule waiving points of order. There is one place in S. 2499 which might be subject to a

point of order. In order to relieve the necessity of asking for another rule, we would like to get that rule waiving points of order.

Now, may I suggest, Mr. Chairman, that this is not new.

We were criticized for getting the bill out so quickly. Well, we feel it is an emergency. Really, it is an emergency. This is now an old subject. The procedure has been—it has been on the Hill available in the Export-Import Act for 21 long years.

Now, of course, I was criticized last fall for holding up a bill. I had had 2 or 3 weeks or more hearings on it. Some wanted it out very quickly, right off, and we got it out, too, because we go according to the will of our committee.

So the chairman cannot hardly win on this thing.

You shall and you shan't. You will and you won't. You be damned if you do and damned if you don't.

So last fall, I was accused of holding up the bill. Now, I am accused of trying to get one through too fast.

There seems to be no way a chairman can win.

In 1934, when we were in the depths of the depression, by Executive order, President Franklin D. Roosevelt, created the Export-Import Bank, one of the finest organizations we ever had around us. We have never had any scandals in the Export-Import Bank. It has been conducted by good people, in the right way, in the public interest.

And in 1945, 11 years—

The CHAIRMAN. On Export-Import Bank, if you do not mind, while you are right there on that one specific instance, how will that work in this program?

Mr. PATMAN. I am coming to that—11 years later, 1945, we amended the Export-Import Bank by inserting a participations program just exactly like we have here in H.R. 14544. That was 21 years ago, and that bill was to allow them to sell participations and I have the record here, like this year they sold \$450 million worth of participations.

The CHAIRMAN. Did we guarantee the payment of them?

Mr. PATMAN. Yes; the Eximbank does.

The CHAIRMAN. I am just asking. I just want to know.

Mr. PATMAN. Beg pardon?

The CHAIRMAN. I just wanted to know. I am trying to get information, because I am truly puzzled about this.

Mr. PATMAN. If they are not, they are guarantees by Export-Import Bank which is a moral obligation of the U.S. Government.

Now, then, Judge, we took that law, that amendment in 1945, exactly what we want here for the Export-Import Bank. It has been in effect 21 years. It has been very good. Nobody has complained about it. And that bill, to grant exactly what we are asking here now for other agencies, passed the Senate committee by unanimous vote, the Senate by voice vote; passed the House Banking and Currency Committee by unanimous vote, and passed the House of Representatives, by voice vote.

So there is bipartisan support.

The CHAIRMAN. May I interrupt again?

Mr. PATMAN. Yes, sir.

The CHAIRMAN. Now, what will become of that particular agency?

Mr. PATMAN. It will not be affected because they already have the direct power and they are not contemplated to come under this. It is not contemplated they will come under this, but their activities will be coordinated, too.

The CHAIRMAN. Does the bill say who comes under it and who does not?

Mr. PATMAN. The budget——

The CHAIRMAN. My recollection was—no.

Mr. PATMAN. The budget.

The CHAIRMAN. I know I am a little old fashioned, but I like to go by the language of the law that we are acting under, not by the budget or by something else.

Mr. PATMAN. Yes, sir. I assure you that the language of the law is in harmony with the statements that I make, Judge.

It is exactly harmonious.

The CHAIRMAN. My recollection of the language of the law is that all agencies would come under it.

Mr. PATMAN. That is correct; yes.

The CHAIRMAN. It would cover them all, so it would cover Export-Import Bank.

Mr. PATMAN. No reason for it, Judge. You see, they already have the power and have had it for 21 years. It is not contemplated, it is not anticipated, that they will be under this. There is no reason for it.

The CHAIRMAN. I am talking about the law. Under the law, they can be put under it.

Mr. PATMAN. Well, in the technical reading of the law you are right. But I assure you, Judge, it will never be an issue. It will never be a problem.

Mr. SMITH of California. How does he know that?

The CHAIRMAN. I would just like to see things written in the law, instead of in somebody's mind about what is going to happen. I do not know that there is any objection to it being in or out, if it is working all right now.

Mr. PATMAN. Yes, sir; it is working fine.

The CHAIRMAN. I would like to know what we are doing and that is what is puzzling me.

Mr. PATMAN. I assure you I talked to the Budget about this.

The CHAIRMAN. It is our duty to know what we are doing in this bill.

Mr. PATMAN. Yes, sir; that is right. I am for that, sir.

The CHAIRMAN. It is a terrifically important thing.

Mr. PATMAN. That is right.

The CHAIRMAN. Just to think of what you think is going to be very soon \$40 billion; \$33 billion now——

Mr. PATMAN. Yes.

The CHAIRMAN. That we are piddling around with——

Mr. PATMAN. Yes, sir; that is correct.

The CHAIRMAN (continuing). It is our duty to know what we are doing.

Mr. PATMAN. I would not use the words "fiddling round," Judge.

The CHAIRMAN. I was hesitating for a word and that sounded like a good one at the moment.

Mr. PATMAN. Anyway, it is all right. It expresses it.

Now, as to the HEW program, if this bill passes, it is anticipated they will sell \$100 million of participation agreements in 1967, not this year, and the Federal National Mortgage Association, of course, they have their separate law too, \$520 million, and the college housing loans, \$820 million, and the public facility loans, \$80 million, that means the sanitation loans like water and sewer and things like that, that are helping out more small towns in America.

The CHAIRMAN. We know that.

Mr. PATMAN. So, it is just helping out these programs in an additional way.

Further, there is the Veterans' Administration that needs this.

They have put out this year under law \$93 million direct loans in participation, and they anticipate \$625 million next year. That is quite a sizable sum.

Also, the Small Business Administration is dependent upon aid. As I said, they have not made a direct loan since last October. They have not gotten back into the business yet, and it is going to take a little time. If this does not pass, I do not know when they will ever get back into the direct loan business. If this passes, they will get back in quickly.

Mr. SMITH of California. One of the reasons SBA has not made loans is that it ran out of money, as you and I know, because of the Alaska disaster, and others. You and I would have gone to the floor and asked for additional money any time Mr. Foley came in and asked us.

We did do it. The bill was signed for money to increase their lending authority.

Mr. PATMAN. That is right.

Mr. SMITH of California. I think the Members of Congress would give SBA any amount of money that it can establish it needs, and the appropriations committee has funded the entire request every year.

Mr. PATMAN. That is limited to a new authorization of \$125 million.

Mr. SMITH of California. But they ran out of money, is that why they did not make loans?

Mr. PATMAN. Yes, sir; that is correct.

Mr. SMITH of California. They made quite a few, 15,000.

Mr. PATMAN. They had a lot of things to do, to deal with, besides that, Mr. Smith.

Mr. SMITH of California. I do not think you can blame SBA's failure to make loans on the fact that this bill was not in existence.

Mr. PATMAN. This bill, if passed, will help them make loans in the future.

Mr. SMITH of California. May I ask this? Before the Easter recess, as I understood it, your committee was considering the SBA participation loan bill. I do not know what happened to that. But, as I understand from what I am told, at that time you were concerned about that particular bill. When you got into it, you more or less came to the conclusion that it was like a man who says that he has more money today than he had yesterday. He sold the furniture in his house last night and he has more money but he does not have any place to sleep.

Mr. PATMAN. If this bill passes, small business will be in good shape. If it does not pass, small business is in bad shape. It is that simple.

Mr. SMITH of California. Has there been any change since Easter in your thinking on this from what it was during the hearings before Easter?

Mr. PATMAN. No. I have just been—my attitude has been flexible, according to what we had before us at the time, and sometimes we learn things that will change our minds.

Mr. SMITH of California. I always was of the opinion—

Mr. PATMAN. I have known Members of Congress, you know, sometimes they reserve the right to be consistently inconsistent. We all get ourselves on that side of being inconsistent, and we just cannot help it because in the light of new information, the problem at the time, and changing conditions, we do what is necessary for the public interest, sometimes we do what would appear to be contrary to what we have done in the past.

Mr. SMITH of California. I do not in any way have any idea of trying to be personal, Mr. Patman, but I have gotten the impression over the years that you have always been against high interest rates and businessmen making a lot of money.

Mr. PATMAN. I am against high interest rates.

Mr. SMITH of California. Is this not a reversal of that belief?

Mr. PATMAN. I will get to that a little later. I assure you I have a good answer for you.

Mr. SMITH of California. All right.

The CHAIRMAN. I bet you have.

Mr. SMITH of California. I will be looking forward to it.

Mr. PATMAN. Now, in addition to the Export-Import Bank, which shows that this thing has been around for 21 years, that it is not new at all, you know, during the preceding administration of President Eisenhower, he sent four messages to Congress, asking for participation sales authority.

Later, in 1964 and 1965, both Houses adopted this procedure for several programs in a conference report.

Mr. SMITH of California. I am sorry to interrupt, Mr. Chairman, but my understanding of former President Eisenhower's proposal was that there should be an outright sale; it was not a proposal of a sale of certificates. That is what my record shows in the office; he was going to sell assets outright, and not merely sell certificates.

Mr. PATMAN. We are going to sell participations outright, which is the same thing. The principle is exactly the same thing.

Now, then, Judge, on the second bill we would like to have a rule on that. That just relates to the Small Business Administration, and, Mr. Smith, I wish you would listen to this.

Mr. SMITH of California. Yes, sir.

Mr. PATMAN. My objection to SBA direct sales approach was that I considered it inept really, I did not look on it with favor at all. What they did wrong would be cured by this particular bill. They were going into the market themselves to sell agency's paper directly through the market. They were dealing only with select institutions. They had to pay $5\frac{3}{4}$ percent interest, and a quarter of 1 percent brokerage fees, 6 percent on what is in fact U.S. Government guaranteed obligations. That is what I objected to.

MR. SMITH of California. Are you not going to add a brokerage fee in this, one-quarter percent?

MR. PATMAN. No, sir, it shouldn't be that high effectively.

MR. SMITH of California. I think the language would indicate that it would.

MR. PATMAN. If there are brokerage fees, it would not be any one-quarter of 1 percent. They might have to pay a small bit, like they always do securities, but there should be nothing like any one-quarter of 1 percent. That will be stopped.

And this will allow, Judge, on this second bill, about \$350 million of securities, or participation in securities, to be sold between now and June 30 only. It is a short-term approach. That is to get the SBA back in business quickly.

So now then, about the interest rates, Mr. Chairman.

The CHAIRMAN. They do not have this now? Small Business does not have this?

MR. PATMAN. They do not have the power to sell it by participation, by selling participating certificates. They have the right to sell direct loans, like John Smith's loan, or something like that, but they do not have the right to pool them like we proposed and to sell participating certificates in the pool. That would make better market, Judge. The interest rate will be way down in comparison.

The CHAIRMAN. Under this, do we guarantee principal and interest on all of these bonds?

MR. PATMAN. Why, certainly, yes, sir. That is the only way to have a good market.

The CHAIRMAN. It is a good way to go broke sometimes, too.

MR. PATMAN. No. We would not go broke on this.

The CHAIRMAN. Suppose we had a depression?

MR. PATMAN. Well, we could have. Everybody would be in it, you know.

The CHAIRMAN. Everybody would be in it, yes.

MR. PATMAN. Yes. And we would all be squeezed.

I hope we do not have any.

There are plenty of ways you can stop inflation, but there is no known, provable way of stopping a deflation.

MR. PEPPER. Mr. Chairman, may I just ask these questions?

Would these SBA participations be sold by SBA directly or through FNMA?

MR. PATMAN. Through FNMA, because FNMA has acquired a reputation in the marketplace that is good. And the participating certificates can be sold to a much better public advantage through FNMA, and that is the object of this. It is to keep all these agencies from going in the market by themselves and, like the SBA did, they dealt only with one New York brokerage house.

The CHAIRMAN. I would think that would be a good idea, if you are going to do it, but would you scramble up in a bunch, say, you are going to sell a block of notes——

MR. PATMAN. Yes.

The CHAIRMAN (continuing). A billion dollars' worth—would you scramble housing loans in with small business loans? And how in the world——

Mr. PATMAN. Not accepting your word "scramble," which I do not think it is, in this, we would pool them, Judge. We would put them together in the same pool and then sell participation certificates on the pool.

The CHAIRMAN. Of a number of given——

Mr. PATMAN. Just like a mutual fund. Everybody knows what a mutual fund is, and how it operates.

The CHAIRMAN. But as to a mutual fund, those securities are all owned by the fund. These securities come out of some other agency——

Mr. PATMAN. That is right.

The CHAIRMAN (continuing). And go into this pool which is controlled by the housing, and then you have them scrambled up, a half dozen different agencies of Government owning some of the specific bonds in the pool.

Mr. PATMAN. Do not overlook this, Judge.

The CHAIRMAN. How are you going to unscramble those eggs?

Mr. PATMAN. The legal title—I do not like the word "scramble" because I do not think it expresses what we have in mind.

The CHAIRMAN. I am not very good at expressing my thoughts.

Mr. PATMAN. Only for that reason—but the legal title would pass to the pool, FNMA, just like in the mutual funds.

The CHAIRMAN. But the agency still has to service them.

Mr. PEPPER. The agency would assign it.

The CHAIRMAN. What would the agency——

Mr. PATMAN. Selling participation and the legal title.

The CHAIRMAN. The agency that turns the things over to Federal Housing—what would they get so as to keep their books straight?

Mr. PATMAN. When they are sold, it goes into the Treasury, reduces the national debt that much.

The CHAIRMAN. I have heard it said that it does not.

Mr. PATMAN. If you sell \$4,700 million of these securities, money goes to the Treasury on a net basis.

Mr. PEPPER. Mr. Chairman——

The CHAIRMAN. I am talking about the different agencies involved.

Mr. PATMAN. They get their part, of course. They get credit for it.

Mr. PEPPER. The Judge is trying to find out if Small Business, for example, transfers \$100 million worth of its securities, what does it get back from FNMA?

Mr. PATMAN. In proportion to what——

Mr. PEPPER. Get some sort of paper back?

Mr. PATMAN. Yes, sir.

Mr. PEPPER. It gets back—it is like you trying to sell your property to a trustee. You get an acknowledgment from the trustee that he holds for you.

Mr. PATMAN. This gentleman would like to answer.

The CHAIRMAN. The unscrambling process comes then when the note is liquidated?

Mr. HANNA. Mr. Chairman?

The CHAIRMAN. When the participation——

Mr. PATMAN. Mr. Hanna would like to be heard on that point, Judge.

STATEMENT OF HON. RICHARD T. HANNA, A MEMBER OF CONGRESS
FROM THE 34TH DISTRICT OF THE STATE OF CALIFORNIA

Mr. HANNA. Mr. Chairman, I think you are right in saying that it is a little difficult to see the structure of this thing, even though the mechanics are rather simple when broken down, but what we are doing here is taking the loan asset and providing a paper to the pool which indicates that asset which is held by the agency which created it; then the assignment of the value of that asset goes into the pool, into FNMA.

Now, at this juncture, I think we should understand that management is very important in this whole thing, and this is something you cannot put in the bill, Judge, because management is predicated upon the maturity of the paper being assigned and the market at the given date of an issuance of a particular pool.

Now, the management has to determine what the market response will be and then they have to take the mix, the mix will be determined upon the maturity of the paper from the various agencies, and the strength of that particular type of paper has.

So that it would seem to be that what will happen is that the SEA will assign more mature paper than the FHA would assign, simply because that kind of paper is not as readily acceptable.

On the other hand, no agency is going to assign paper which has maturity, like a year or 2 years from now, because they will hold it and get the total payoff themselves.

So that, somewhere along here, the management of the pool has to make a judgment as to what mix to put in, the degree of maturity required on the paper, and then—

The CHAIRMAN. Did you use the word "mix"?

Mr. HANNA. Yes.

The CHAIRMAN. Probably that is better than "scramble".

Mr. HANNA. I would hope that it would be an acceptable phrase, Judge, because I think that is really what the market phraseology is on these things.

Mr. MARTIN. Where in the bill does it provide for this point you are making?

Mr. HANNA. It puts the management of the pool in the FNMA, and I am just telling you that you cannot, once you have given them the management, do more; that is about all you can put in law.

Mr. MARTIN. The authority.

Mr. PATMAN. Talking about regulations FNMA will make.

Mr. HANNA. It has to be left in terms of flexibility on the part of management that can respond to the market and to the available paper that is in the hands of the various agencies.

I do not know how you could put this into the language of the bill without destroying certain flexibility that will give them the market response. It does not make any difference to us if we said, for instance, as we have in law, we said to SBA, you can sell any of your loans that you want to, but—

Mr. SMITH of California. They can now do it and they are doing it.

Mr. HANNA. Yes.

Mr. SMITH of California. They have 12 former bankers in the United States doing just that right now.

Mr. HANNA. Yes, Mr. Smith. What I want to point out—

The CHAIRMAN. FNMA?

Mr. SMITH of California. SBA.

Mr. HANNA. This bill will change the market response. We do not make the market response in Congress. The market response is a reality on its own, and what we have found is that the market response for a pooling arrangement where you have a diversification of portfolio behind the pool is affirmative and strong. Where you are going on just one type of loan with one payor behind it, you do not have a strong market response, and what this bill does, gentlemen, is change velocity for volume. We can either go ahead and serve the commitments Congress has made to policy by increasing the volume of money that each agency will have, or we can look for velocity and turnover, by utilizing this kind of arrangement, to which the market response has already been demonstrated as being strong and affirmative, and that is really the choice that we are making, as I see it.

Mr. PATMAN. May I suggest this, the 12 bankers——

The CHAIRMAN. Just a moment now.

Mr. Hanna, you have made a very good statement, but if the bill is not scrambled up, some of us on this committee are scrambled up.

Mr. SMITH of California. That is sure.

The CHAIRMAN. I think we will get along better if we have one witness at a time.

Mr. HANNA. I am sorry.

The CHAIRMAN. I assume you are going to——

Mr. PATMAN. Mr. Hanna made a great contribution here. I think he explained this procedure perfectly.

The CHAIRMAN. It is all right, but I am confused enough already.

Mr. PATMAN. Judge, you are not confused on this. This is very simple.

The CHAIRMAN. You told me that before.

Mr. MARTIN. I would like to ask a question.

The CHAIRMAN. You clarified a great deal.

Mr. PATMAN. Let me answer.

The CHAIRMAN. Let us go on with Mr. Wright Patman, and then follow the usual course.

Now, did you finish your statement, Mr. Hanna?

Mr. HANNA. Yes, sir.

The CHAIRMAN. Mr. Patman?

Mr. PATMAN. I will yield for questions if you think that is a better way to proceed.

The CHAIRMAN. You proceed as you like to.

Would you like to make a further statement?

Mr. PATMAN. Now, on the 12 bankers, the question is, should we let these different agencies pursue this matter on their own and be independent and all of them go into the market, some of them at the same time, trying to sell certificates for loans that are held by Government agencies directly?

I want to invite your attention to the fact that would be awfully confusing.

Mr. O'NEILL. Do they not have that right today?

Mr. PATMAN. Some of these agencies do have, and have just begun to exercise their right in a way that is not very favorable.

Now, the Small Business Administration, seeing it just had to have money, they dealt with these underwriters—these 12 bankers that Mr. Smith talked about, underwriters, through a firm in Wall Street, which, of course, they had the knowledge and know-how, and it is understandable why they go there to get somebody to sponsor it. But in order to get a sponsor, they just sold the cream of the securities to these 12 underwriters. That is all they were interested in. They would not buy any of the poor stuff at all, none of it.

Mr. SMITH of California. Now you are talking about two different things.

Mr. PATMAN. So the idea is to put in the pool and sell it together, and let me tell you what that costs, Mr. Smith. I hope you do not overlook this point.

Mr. SMITH of California. You are talking about two different things.

Mr. PATMAN. No, we are not. This thing is what you mentioned. I am acquainted with it.

Now, in pursuing this thing by itself, a lot of the people in the financial world did not consider this agency had a right to get the credit of the United States behind these securities. Therefore, they said they doubted that, and therefore had to have a higher interest rate. The SBA in order to get this \$110 million worth of paper sold had to pay, not only $5\frac{3}{4}$ percent, which is the highest on record for the United States, I guess—I never heard of a higher rate, or never read about one—in addition to that they had to pay a brokerage fee of one-quarter of 1 percent, which made for an effective rate of 6 percent on U.S. Government securities.

And if those same securities had been sold through a participation pool as contemplated in H.R. 14544 through FNMA, the rate would not have been, in my opinion, over $5\frac{1}{2}$ percent. It is because FNMA has the right to pledge the Government credit for it and, of course, the Small Business did, too, but the financial market would not accept it that way.

By putting this paper in one barrel, one pool, and doing it through FNMA, an agency that has gained the reputation, properly so, of dealing with the market, it will save the Government tremendous sums of money and will not be confusing as it would be to let each agency pursue it on its own.

Mr. MARTIN. Is it not true that all obligations of FNMA state it is not an obligation of the Federal Government?

Mr. PATMAN. Not to my knoweldge.

Mr. SMITH of California. Mr. Patman, will you help me understand this? Under a prospectus—

Mr. PATMAN. Guaranteed by the Government. I do not know what the language is that is used.

Mr. SMITH of California. Under a prospectus of FNMA, February 18, 1966, \$410 million participation certificates in the Government Mortgage Liquidation Trust, the Federal National Mortgage Association trustees, it says this:

Timely payments of principal and of interest on the participation certificates is guaranteed by the Federal National Mortgage Association, a corporate instrumentality of the United States. The participation certificates are not obligations of, and are not guaranteed by the United States.

Now, are they guaranteed or are they not guaranteed?

Mr. PATMAN. That is exactly right, what you see there.

Mr. SMITH of California. That is what it says.

Mr. PATMAN. I know what you are talking about. Do not overlook this fact, that FNMA has an unlimited power of draw from the Treasury of the United States to pay its securities.

Mr. SMITH of California. Well, now——

Mr. PATMAN. That gives it a guarantee, although you might say it is not full faith and credit of the Government behind it, it is in fact a 100-percent guarantee.

The CHAIRMAN. I cannot understand that.

Mr. SMITH of California. Brokers are being used in this. They are listed down here:

Mortgage Guarantee; Merrill, Lynch, Pierce, Fenner, and Smith, and Simon Bros., and First Boston Corp.

Mr. PATMAN. That is right. They use brokerage in all of them, not any one-quarter of 1 percent.

Mr. PEPPER. Will the gentleman yield for a minute?

I call your attention to the report No. 1448, page 8, where, under the rule, they set up just exactly what the language of that new bill would be. Along about the middle of the page, it says:

The Association may join in any such undertakings and activities notwithstanding that it is also serving in a fiduciary or representative capacity; and is authorized, consistent with section 307, to guarantee any participations or other instruments, whether evidence of property rights or debt, issued for such financing purposes.

Let me ask you, does this bill propose for the Government to guarantee the payment of these? That is what you told me?

Mr. PATMAN. Yes, sir.

The CHAIRMAN. And yet under the present arrangements before you pass this bill, you are advertising that they are not guaranteed by the Government?

Mr. PATMAN. I do not know why they put that phrase in there, but they are guaranteed.

The CHAIRMAN. A fellow who tries to sell something would not advertise it down, but would advertise it up.

Mr. PATMAN. FNMA, under the law, has the unlimited power of withdrawing funds from the Treasury for that purpose.

Mr. PEPPER. The obligations themselves are guaranteed by the Government; are they not?

The CHAIRMAN. Where do they get that power?

Mr. PEPPER. Heretofore the law did not authorize FNMA to guarantee the participations, but in the pool, the underlying securities, which the participation represents a share, were guaranteed like FHA loans and others.

Apparently, the Association is authorized now, if it chooses to do so, to guarantee also the certificates in this bill we now have before us.

Mr. PATMAN. I think you will find it is only the Treasury notes and obligations that carry the full faith and credit of the U.S. Government, but these carry a guarantee because FNMA, under law, has the power to draw funds from the Treasury for that purpose. That makes it good in the marketplace.

The CHAIRMAN. For the purpose of doing what?

Mr. PATMAN. To make these interest and principal payments.

Mr. SMITH of California. When I read from the FNMA Charter Act, under which they operate, it is my understanding that they have sold four participations totaling about \$1.6 billion, and they paid about \$5 million in commissions in fees, for the sale, and the language of the act says:

The Association shall insert appropriate language in all of its obligations issued under this subsection—

And I am reading from the subsection, the gentleman, I believe, from Florida mentioned—

clearly indicating that such obligations, together with the interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof, other than the Association—

And your bill before use does not change that language one iota. I think I am correct in that, Mr. Chairman.

Mr. PATMAN. FNMA is given this title—

The CHAIRMAN. What?

Mr. SMITH of California. Under Charter Act of FNMA, section 306(a)—

Mr. PATMAN. I repeat, I think you will find the full faith and credit of the Nation on obligations, Treasury obligations, like short-term or long-term certificates, notes, long-term bonds, they are the only ones that will carry that phrase.

I believe you will find that.

But this is just as good because it is guaranteed through the FNMA law by the Government. The guarantee is just as good as the full faith and credit, really is my point.

The CHAIRMAN. The thing says it is not guaranteed.

Mr. SMITH of California. That is the law.

Mr. PATMAN. They have the power of drawing money from the Treasury to make the guarantee good. What better thing can you have than that?

Mr. SMITH of California. That is the law.

The CHAIRMAN. What is the law?

Mr. SMITH of California. The language I read is the present law and here is an actual participation certificate prospectus, and it says right in there, in accordance with section 306(a) what they are required to state.

Mr. PATMAN. Let us get to the bottom of this, Mr. Chairman, please. Briefly, I want to say this, that what is involved here, should the Government go ahead and make loans to farmers and to veterans, Small Business Administration, and just pile those loans up and not let the private sector come into it all? That would sound like a little bit socialistic to me.

Now, of course, I am accused of being a Communist, and I do not want to be accused of being a Socialist.

But that would appear to be just a little bit on the side of socialism.

One of these days, the Federal Government will have more invested in the banking and lending activities than all the banks and investors in the country. Do we want that? No, we do not want it. We do not want nationalization of banks in this country. We want private enterprise—the private enterprise system.

But whenever you permit the Federal Government to make all these loans of taxpayers' funds and just pile them up, pile them up and never sell any of them out to the private sector, leave the private sector out entirely, that occurs to me to be the wrong thing to do. We do not want this amount to increase above \$33 billion. We want to reduce the amount, and that is what we have here now.

Let the private sector come into this under reasonable terms and conditions. I think it is a wonderful thing.

Mr. SMITH of California. If they are guaranteed, how do we reduce the amount? Under FNMA it is not guaranteed?

Mr. PATMAN. Just like I say, Mr. Chairman, it is two different ways of guaranteeing them. One is, they can write in there, like they do on Treasury obligations, full faith and credit of the Government. Another way, they guarantee by letting FNMA in this case have unlimited drawing power on the U.S. Treasury to make good any of its obligations. I do not see how you can improve on that.

And as to this money where the participation will be sold, the money will go into the Treasury, credited to the respective agencies, \$4,700 million in one case. I would like to not have to pass a tax bill any time in the foreseeable future, and I hope never; I hope never. This bill would relieve us of the alternative of passing a tax bill. Also, it would enable us to have funds for college housing, Small Business Administration, for veterans, and many others. That is the alternative.

Now, I believe that it is justified for that reason. I do not think any of us want a tax bill. Of course, if somebody wanted to be real political, that wanted to kind of force the Democrats in the position of having to pass a tax bill anyway, why they could get some credit from it because it would be a hardship on the Democrats, maybe, or maybe it would not. I do not think that we ought to consider politics in this at all.

We are in war. We are in trouble. We do not have any serious inflation at this time or in the foreseeable future, as I see it, enough to require a tax bill at all. But it could build up if it keeps on.

Mr. SMITH of California. Mr. Patman, straighten me out on this if you will, please.

You made the statement, if I understand it, that money goes back into the Treasury. Now, previously thereto, you said that SBA needs more money and by selling it, they will get the money.

Now, the bill, as I read it, said that the agency that places the loans in the pool—

Mr. PATMAN. Yes. Up to the—yon overlook—

Mr. SMITH of California (continuing). Gets the money back. You cannot go to the agency to get it back and also put it in the Treasury.

Mr. PATMAN. You overlook one thing. You have not gone into it far enough.

Mr. SMITH of California. I read it.

Mr. PATMAN. You see, they can use it up to the amount they are authorized under the law. You see, they still have to operate under their authorization. They cannot exceed that.

The CHAIRMAN. That is true.

Mr. PATMAN. They cannot exceed it at all. This bill must be a pretty good bill. Even my old friends, the American Bankers Association, has no objection to it. I have a telegram in my pocket.

Mr. O'NEILL. I would like to pursue what Mr. Smith was touching on.

If an agency at the present time has funds only up to a number of loans, they have not got the money for further loans. If they had a bill of this type, would the money be available?

Mr. PATMAN. Yes, there is.

Mr. O'NEILL. All right. Then pressing this point, you say we go back into the——

Mr. PATMAN. That is the sale of the participation certificates that they have on hand now.

Mr. O'NEILL. How was this going to alleviate the shortage of funds that SBA has at the present time?

Mr. PATMAN. They can up to the point of the new \$125 million authorization. They can. It has been approved by that. It will be approved. You see, there is another point here that I am afraid you overlooked. Not only does the authorizing committee have to authorize this, but the appropriations committee has the power to go into it in detail and say, "Now, if you are going to sell these participation certificates, the interest rate shall not be over a certain amount, the terms shall be so and so; otherwise, you cannot do it."

You have the Appropriations Committee, and the Congress, directly involved and controlling here.

Mr. SMITH of California. Where is that in the bill?

Mr. O'NEILL. Could this go back in the revolving fund?

Mr. SMITH of California. I can answer the question for you, Mr. O'Neill, from the language on page 4 of the bill.

Mr. PATMAN. In fact, under this bill SBA, for example, would have to go before the Appropriations Committee and all of the funds authorized and appropriated would be allowed to go into the revolving fund. But the Appropriations Committee will have to pass on that.

Mr. SMITH of California. It does not say that in the bill anywhere, Mr. Patman.

Mr. PATMAN. Let me read this telegram to you.

Mr. SMITH of California. That is not what I am reading from.

Mr. PATMAN. This is to Senator Robertson, Senator Robertson, Chairman of the Banking and Currency Committee of the Senate:

Supplementing and clarifying our letter to you of April 26, the American Bankers Association believe that H.R. 14544 with proposed amendments; that is, the Appropriations Committee, offers adequate congressional safeguards for use of the authority, and we, therefore, interpose no objection to the passage of the bill.

So if you can satisfy the American Bankers Association with it, it occurs to me that that is a pretty good test.

The CHAIRMAN. The bankers are the boys who are going to buy the bonds and have them guaranteed by the Government at a high rate of interest.

Mr. PATMAN. I would not say that.

Mr. SMITH of California. They are going to make the money. They should support the bill.

The CHAIRMAN. I had experience with bankers. I find the prospect of profit is a great persuader.

Mr. PATMAN. There are all kinds of bankers, Judge.

The CHAIRMAN. They are honorable but they want to make a profit. That is what they are in business for.

Are you finished?

Mr. SMITH of California. Mr. Patman explained the letter and telegram.

I would just like to point out what the bill says; this is page 4 starting on line 6:

The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of the beneficial interest or participations to the extent they are based upon such obligations or collections.

In other words, the SBA has a ceiling on it which was raised the other day, the maximum that it can have in loans at any one time.

Mr. PATMAN. That is right.

Mr. SMITH of California. Assume SBA reaches that maximum ceiling. It has run out of money. Let us assume that. SBA can turn around and sell \$100 million worth of its loans, make this pooling agreement—

Mr. PATMAN. They do not sell them; FNMA will sell them.

Mr. SMITH of California. And make a trust agreement with FNMA for \$100 million. Let us assume SBA signs the agreement and then FNMA puts out the prospectus and sells the paper at \$25,000 or at whatever they sell. Then FNMA must immediately, under this language, give the \$100 million back, less whatever fee, one-quarter percent, to SBA so that it then would have \$100 million more to lend. That is the type of revolving fund—

Mr. PATMAN. Wait just a minute. You are overlooking one important fact. That has to be within the authorization. That is approved by the—

Mr. SMITH of California. Where does it say that?

Mr. PATMAN. Approved by the authorizing committee and also approved by the Appropriations Committee. If it has not been approved it does not go back to the revolving fund. That would be back-door financing and it would be acting contrary to the will of Congress and going around Congress.

Mr. PEPPER. Excuse me, if the gentleman from California will yield.

I think you are overlooking, if I may say so, that there is nothing new created here. All these obligations from the several agencies will still, in the future, be created and issued in the same way that they have been in the past, by authorization of Congress. All this is, is giving the Federal National Mortgage Insurance Association the right to take as trustee, securities that are properly issued according to law by the various Federal agencies that are assigned to them and dispose of them through participation certificates.

They are acting as the trustee for, say, SBA.

The gentleman was right. I think they take the \$100 million worth of bonds and they sell participations; when they have money, they would pay off whatever was the proper remittance, like any other trustee, selling for, settling a trust for a beneficiary.

There is nothing new created. This does not authorize the FNMA to authorize SBA to issue any more securities. They are just the agent of the Government funds; is that right?

Mr. Patman.

Mr. PATMAN. Yes, sir.

May I read the language that Mr. Walker of the American Bankers Association referred to as satisfying him? It is on page 6 of the bill, line 9, subsection (4):

Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation act. Any such authorization shall remain available until used.

I can see where a Member would be against this, but not for this purpose.

The Government is fully protected here. All parties are protected. You have to make the market secure or you will not have any business. This will save us tremendous sums of money and it will be, according to the private enterprise system, feeding it out into the private sector and letting everybody participate.

The CHAIRMAN. Mr. Patman, as I read that, the authorization and the appropriation has to be made before they can sell?

Mr. PATMAN. Certainly. That is the reason I say the Appropriations Committee can set the terms, and say, now you can only offer this, for instance, when the Government securities are not being offered; you can only offer it at a certain rate of interest.

The CHAIRMAN. You omitted one step there, and that is the authorization.

Mr. PATMAN. This is the authorization——

The CHAIRMAN. Oh, no. This is the appropriation, now, and an appropriation has to be preceded by an authorization.

Mr. PATMAN. Well, that is it. We just made the authorization. The President signed the bill the day before yesterday for the SBA raising the authorization to a billion and——

The CHAIRMAN. That was authorized.

Mr. PATMAN. It was authorized. A \$125-million increase.

The CHAIRMAN. This does not provide for the authorization.

Mr. PATMAN. No; it has to be appropriated, Mr. Chairman.

The CHAIRMAN. It would be very simple for you just to put in there, authorized and appropriated.

Mr. PATMAN. Well, I do not think it is necessary.

The CHAIRMAN. Do not be too stiff on this, Mr. Patman, because you are going to have——

Mr. PATMAN. You fellows will have to loosen up a little bit, too.

The CHAIRMAN. Something that obviously ought to be corrected, ought to be corrected. You cannot make an appropriation under the law unless you have an authorization.

Mr. PATMAN. Let us make it legislative history.

The CHAIRMAN. All you have to say——

Mr. PATMAN. Let us make it legislative history on the floor of the House, that the appropriations committee will have the power to determine how these participations shall be issued and the brokerage that can be paid and write all kinds of limitations and restrictions in it.

Mr. SMITH of California. It does not say that in the bill. Why do you not write that in the bill?

Mr. PATMAN. I think it is in there.

Mr. SMITH. It does not say it.

The language you read is: "authorization remains until used." It does not say what authority the Appropriations Committee has.

The CHAIRMAN. I do not see how it could possibly hurt your bill any.

Mr. PATMAN. I think the rules of the House would apply, Mr. Smith. You know, you can always put a limit on an appropriation bill. We will either make an amendment, if it is necessary, or we will make legislative history or make it plain, my dear sir, because there is no difference in what we will want to arrive at.

Mr. SMITH of California. It ought to say it in the bill.

I am not against the bill. I am trying to understand it.

Mr. PATMAN. Yes, sir.

Mr. SMITH of California. I followed SBA pretty closely, and I have the impression that if we sell \$100 million worth, the trustee, FNMA gives that \$100 million received from the participation sale back to SBA, which has it to loan.

Mr. PATMAN. Within the authorization.

Mr. SMITH of California. That is right.

I am not worried about appropriations on that. This goes past and present. This is money they are going to get. SBA has \$100 million more to loan, less whatever its costs were, so it can go out and make some loans, so that places \$100 million more, and increases the obligation of the Government. Supposing 50 percent of the loans turn sour, and we have to pay the guarantee, where are we going to get the money to do that?

The law says FNMA just comes to the Treasury and it pays every year what FNMA loses, so we have to appropriate money to pay \$50 million they lose, and \$100 million is out.

Mr. PATMAN. See if this will not explain it.

SBA has a new authorization of \$125 million.

Mr. SMITH of California. Yes, an additional authorization.

Mr. PATMAN. There are two ways that \$125 million can be used. One is to make a direct appropriation by Congress—

Mr. SMITH of California. Right.

Mr. PATMAN. You use taxpayers funds for that purpose.

The other way is to let them sell participations up to the amount of \$125 million, but they cannot exceed the \$125 million.

Mr. SMITH of California. Well, if SBA asks for the \$125 million we will give it to them. We will give it to them just as fast as they can get it on the floor, supplemental or any way.

That has been the history of SBA. As to the \$100 million they sold in FNMA, does that increase the top ceiling \$100 million more?

Mr. PATMAN. It would not go over the authorization on your appropriation.

Mr. SMITH of California. Can they with the revolving money?

Mr. PATMAN. Under the law, they cannot.

Mr. SMITH of California. I would like to have you show me where that is in the bill.

It is hard to understand it.

That is all, Mr. Chairman. Go ahead.

Mr. PATMAN. There is no difference in our feeling about what should be done, and we will make it very clear in the legislative history or amendment, and it would not make any difference to me if better lan-

guage can be submitted, than what has been submitted here. Naturally, we want the best language.

But our intent is clear. SBA cannot exceed the authorization and that anything that is done toward selling participating certificates will have to be done with the Appropriation Committee's approval.

Mr. SMITH of California. It does not say that anyplace in the bill.

Mr. PATMAN. I know, but the Appropriations Committee has restrictions, anything else.

Mr. SMITH of California. This is \$33 billion and if it all goes sour, you could increase it by \$33 billion unless you restrict it in here.

Mr. PATMAN. The main thing is, let the private sector have this obligation instead of stacking it up here.

Mr. SMITH of California. I am not arguing that.

Mr. PATMAN. They would all go in that private sector. That is the main thing.

I would repeat, Mr. Chairman, that this is a good bill.

There is nothing new about it. It is traditional almost in our Government to do it.

For 21 years it has been done by the Export-Import Bank. It is the right thing to do.

It is wrong for the Government to take the taxpayers' money and make loans for all these different purposes and then stack up the securities and keep them dormant.

Mr. SMITH of California. Maybe we should not have authorized the money for the loans in the first place and competed with private enterprise. Maybe we should not be in this business.

Mr. PATMAN. The trouble is that private enterprise would not make the loans. We had to come to this.

You take the farmers. They could not get loans and we had to make the money available through the Farmers Home Administration.

Mr. SMITH of California. And SBA loans are questionable loans, too, the ones that go sour—

Mr. PATMAN. The market would not make the loans and we had to make money available for the facilities like water and sewer and things like that.

The CHAIRMAN. Have you concluded?

Mr. SMITH of California. Yes, I will quit.

The CHAIRMAN. Any questions?

Any questions, Mr. Anderson?

Mr. ANDERSON. Yes, Mr. Chairman.

I had always thought that one of the principal roles of this committee was not so much to substitute its judgment for the legislative committee as to examine into the question as to how much mature deliberation there has been in the committee on the matter.

I wondered if you care to comment on some of the rather serious charges that are made in the minority reports, Mr. Patman, that this bill was available only one-half hour before the committee met and then only Government witnesses were heard and no opportunities were given to any of these people. You read their telegrams, so apparently you think their views are of some importance. But did they testify before your committee? Are their views in the record of the hearings on this bill?

Mr. PATMAN. Well——

Mr. ANDERSON. And if not, why not?

Mr. PATMAN. There is no satisfactory way to satisfy everybody. You just cannot satisfy everybody.

Now, sometimes you will have a bill that is considered urgent. This bill is considered urgent. I asked that it be given early consideration of the committee.

I called the committee together and I said, "Now, I hope you keep in mind that this is an important bill and we ought to stay here today until we finish on this bill. It is very important."

Well, now, of course, some of the Members did not stay there, but after we had what we considered to be sufficient hearings in view of the fact that we had heard this subject 21 years, there was no reason to go over the same thing over and over again.

Then the committee voted to discontinue further hearings and vote on it, and the majority rule prevailed on that.

Mr. ANDERSON. Was that a party line vote? May I inquire?

Mr. PATMAN. It was a party line vote.

You see, it is rather ironical that a few years ago the Republicans were all for this and many Democrats were against it.

Mr. ANDERSON. Were they not for the direct sale of marketable assets?

Mr. PATMAN. Now, it looks like the Democrats are for it and the Republicans against it.

Mr. ANDERSON. Was it not for the sale of assets? Is that not the distinction that has been pretty clearly brought out here this morning, that Mr. Eisenhower was talking about sales of assets rather than participations?

Mr. PATMAN. Either one would be, I would consider them about the same.

Mr. ANDERSON. You think they are the same? Of course if you feel that way——

Mr. PATMAN. Selling something that belongs to the Government.

Mr. ANDERSON. Now, Mr. Patman, do you agree with the statement that if this bill is not passed and the authorization that it contains are not approved, that the deficit in the administration's budget, instead of the projected \$1.8 billion would be closer to \$6 billion?

Mr. PATMAN. I think so; and we should all try to stop that if we can. We should.

I applaud it.

Mr. ANDERSON. You will agree that would be the case?

Mr. PATMAN. Yes, sir.

Mr. ANDERSON. Do you not feel any concern at all that a certain amount of fiscal restraint is going to be removed if we can operate, feeling that we are only going to have to account for a \$1.8 billion instead of a \$6 billion deficit?

Mr. PATMAN. I do not see any fiscal restraint that is being removed.

Mr. ANDERSON. You do not see any?

Mr. PATMAN. If we said they could sell these participations above the authorization, you would be right; but we are restricting them in that it has to be within the authorization of Congress.

Mr. ANDERSON. You are still talking about \$33 billion in assets are you not?

Mr. PATMAN. Yes; that is \$33 billion last year.

Mr. ANDERSON. At least theoretically all of that \$33 billion could be committed to this pool and participations could be sold and that amount could be reduced from the administrative budget?

Mr. PATMAN. We have a budget.

Mr. ANDERSON. That would be credited against the administrative budget, or reduction of expenditures.

Mr. PATMAN. One hurdle they have to go over, they have to get the approval of the Appropriations Committee. I do not think they would get the approval.

Mr. ANDERSON. Well, Mr. Patman, I have been——

Mr. PATMAN. Wait just a minue. Let me finish answering you about hurrying this bill through.

Mr. ANDERSON. Please do.

Mr. PATMAN. You see we had hearings on a similar bill, the SBA bill, for weeks. We had all kinds of testimony on it. It was the same question invloved.

Mr. ANDERSON. How much money were you talking about there, as far as assets of the SBA, available for this pooling? \$125 million?

Mr. PATMAN. Over a billion dollars.

Mr. ANDERSON. Over a billion dollars?

Mr. PATMAN. Yes. You see, we had the same——

Mr. ANDERSON. You are talking about \$33 billion here, are you not?

Mr. PATMAN. We would not seriously insist, after hearing for weeks the same question, just because we had a new bill, that we ought to go right back over and do the same thing over again. You would not ask that?

Mr. ANDERSON. I have heard enough here already in the last hour and a half to make me pretty sure of the fact that this is not the kind of thing we ought to ramrod through. You think it has been around 21 years.

Mr. PATMAN. Do not look upon it with suspicion. Look upon the good.

Mr. ANDERSON. The American Bankers Association are for it. I have got to be suspicious.

Mr. PATMAN. I am glad you are on my side.

Mr. PEPPER. Let us say I did not know the Republicans had that regard for the national bankers.

Mr. ANDERSON. We have listened to that point of view so long now at this table, Mr. Pepper, it has begun to affect me.

Mr. PEPPER. I thought you got along pretty well with the bankers.

Mr. PATMAN. They could be right one time now and then.

Mr. ANDERSON. I have been talked to within the last few days, Mr. Patman, by representatives of the Farmers Union whose views are generally, I think, about as liberal as the gentleman from Texas.

Mr. PATMAN. I am usually in accord with their views.

Mr. ANDERSON. They tell me that this is going to raise the interest rates, that the farmers in my district, and maybe even in yours, may end up paying more on some Government loans.

Mr. PATMAN. This will not do it. The Federal Reserve has already done that. Back in December, the Federal Reserve Board raised interest rates 37½ percent; 37½ percent. You do not see that in print

much. They did raise interest rates on the rediscount rate of the 12 Federal Reserve banks.

Mr. ANDERSON. You were opposed to that as I recall it?

Mr. PATMAN. Why certainly.

Mr. ANDERSON. Are you not opposed to the fact that this is going to tack on another half percent?

Mr. PATMAN. No; it will not tack on anything more. The Federal Government is fixing the rates in this country. This is either a good principle of selling off Government assets or not. It is either a good principle or not a good principle. If it is a good principle, and I think it is, the rates have to conform.

Mr. ANDERSON. I cannot see—

Mr. PATMAN (continuing). To the present-day rates.

Mr. ANDERSON. I do not see that this represents a sale of assets.

Mr. PATMAN. The rates do not enter into this thing. The principle involved is selling off Government assets. If you sell them, you have to make your rate conform to the going rate of interest.

Now, I am assured by the Bureau of the Budget and the Secretary of the Treasury, and others that were concerned with this bill, that they would not think about selling participations where the rate was greatly in excess of the going rate. They say one-half of 1 percent. They certainly never go above that. And that would be a wonderful thing for this Government, if they could sell all these securities off at not more than one-half of 1 percent and let the private sector get it. Why it would be a wonderful thing.

The CHAIRMAN. Any other questions?

Mr. ANDERSON. In your judgment, did the action of the Federal Reserve Board that you refer to have anything to do with the high rates of yield on these previous sales of participation—

Mr. PATMAN. Certainly. They made it high.

Mr. ANDERSON (continuing). That you refer to?

Mr. PATMAN. It is high, too. The principle is good regardless of the rate of interest. The rate of interest is one of the things you have to harmonize with. Whether low or high, that is incidental. The rates are high; yes.

They should not be that high.

I think the Federal Reserve Board did a great disservice to our country when they raised the rediscount rates from 4 to $4\frac{1}{2}$, which is $12\frac{1}{2}$ percent, or the other rates, regulation Q, from $4\frac{1}{2}$ to $5\frac{1}{2}$, which was 22.2 percent. That was wrong, too. But the worst of all, in order to bail out a few banks that had bought these certificates of deposit, they had to meet quickly and hurriedly in December and raise those rates from 4 to $5\frac{1}{2}$ percent. That was a disastrous rate— $37\frac{1}{2}$ percent—and they did it for the purpose of bailing out a few banks that had induced these corporate funds to quit bidding on short-term Government securities. They wanted them out of that market. They wanted them out of that bidding. Why? Because they wanted the short-term rate to go up and by getting them in CD's, something that is not traditional in the banking system at all, they do not belong in the banking system. But they induced them, instead of buying short-term Governments, to buy CD's at 4 percent, which would give them a big windfall, a big bonus, overlooking the fact that the short terms would go up and then the CD's would go up and there would

be a race between short term and CD's and then they were compelled, they said, to increase the rate so that these banks could roll these deposits over, \$16½ billion worth of them. They were caught short, and they had to do something for them quickly.

That is the reason for that action in December, to save a few banks in the country that had gone into the CD's and they should never have gone into them. They do not belong in the banking system at all.

Mr. ANDERSON. I do not know how we got into all that, but, Mr. Patman, do you think the FNMA is subject to the debt limitation laws, the Liberty Bond Act of 1917, that we extend periodically around here? Is it under that limitation at all?

Mr. PATMAN. No. That is Treasury, you see. There are a lot of things not under that.

Mr. ANDERSON. So, any obligations that are assumed or taken on by FNMA, this pooling and sale of participations—

Mr. PATMAN. They are just not included, just like the money you have in your pocket.

Mr. ANDERSON. Do you think the debt limit will mean anything any more around here?

Mr. PATMAN. Yes; the debt limit is very plain. The law is very plain.

Mr. ANDERSON. But if you transfer these obligations, general obligations of the Federal Government, and they become obligations of the FNMA, and it is not subject to the debt limit act, is this not just blowing the lid off of the debt ceiling altogether?

Mr. PATMAN. Of course, there are FNMA and SBA, all of them, limited by debt ceilings. You see, the debt ceiling does not include everything. There is \$33 billion worth of Federal Reserve notes outstanding. Now, they are just the same as the Government bond except that they do not provide for interest. They are Government direct obligations. They are not in the debt limit, because they are not an interest-bearing debt.

You take the bonds that have expired, say, 2 years ago, that people had not cashed. They are not carried in the debt limit because they are not an interest-bearing obligation. So the debt limit only includes interest-bearing debts of the U.S. Government.

Mr. ANDERSON. But this is an obligation—

Mr. PEPPER. Issued directly by the Government.

Mr. PATMAN. That is right.

Mr. ANDERSON. You say FNMA has unlimited borrowing power.

Mr. PATMAN. No. Drawing power. I did not say borrowing.

Mr. ANDERSON. I will amend that. Drawing power. If that is the case, do you not think we ought to be concerned about the total obligation of FNMA?

Mr. PATMAN. It would be subject to the debt, the drawing power.

Mr. ANDERSON. It will be subject to what?

Mr. PATMAN. The debt. The national debt. What they draw is subject to the national debt. They have not had to draw any yet.

The CHAIRMAN. Is that all, Mr. Anderson?

Are you through?

Mr. ANDERSON. Yes.

The CHAIRMAN. Mr. Delaney?

Mr. DELANEY. No questions.

The CHAIRMAN. Mr. Martin?

Mr. MARTIN. I would like to ask one question.

You constantly reiterated that title is not passed in the sale of these obligations.

I would like to quote here from a colloquy between Mr. Clawson and Mr. Barr. Mr. Barr is the Under Secretary of the Treasury.

Mr. CLAWSON. Now, I would like to know at this point about the ownership of this instrument and is there actually a passing of title to the private investor in the field?

Mr. BARR. Title does not pass to the private investor.

Mr. PATMAN. That is right.

Mr. MARTIN. "The beneficial interest."

Mr. PATMAN. That is right.

Mr. MARTIN. That is contrary to what you have been saying.

Mr. PATMAN. No. Legal title is passed to FNMA. FNMA sells participations, just like a mutual fund, exactly.

Mr. PEPPER. All the investor has is the certificate.

The CHAIRMAN. Is that all?

Mr. MARTIN. Yes.

The CHAIRMAN. Mr. O'Neill, any questions?

Mr. O'NEILL. No questions.

The CHAIRMAN. Mr. Pepper?

Mr. PEPPER. No questions.

The CHAIRMAN. Mr. Young?

Mr. YOUNG. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Quillan?

Mr. QUILLAN. No questions.

The CHAIRMAN. Mr. Latta?

Mr. LATTA. No questions.

Mr. SMITH of California. Could I ask one more?

Under the SBA loans, we had a lot of six-by-six loans. They pay a certain interest, $4\frac{1}{4}$, or something like that. There is language on the note that says if it is sold to any third party the interest rate goes to 6 percent. And a lot of these have been sold to banks, and then the bank notifies the borrower that he has to pay the 6 percent. Of course, he has not read that in the note, and he is mad about doing it. So, normally, the banks say, "They are generally sold anyway, and you are our customer."

Now, with these notes that they have like that in the SBA, when they are transferred to FNMA, is the borrower in each one of those instances going to pay interest at 6 percent?

Mr. PATMAN. I would say no. What you are talking about is the rate of private contract between parties, between SBA and the local bank or the local moneylender.

Mr. SMITH of California. This is in the SBA note.

Mr. PATMAN. They agree on things there which they have the right to agree on. This will not apply where the legal title goes to FNMA, and they sell only participation. They do not sell the legal title.

Mr. SMITH of California. That is your opinion. Do you have any testimony to that at all?

Mr. PATMAN. My opinion—what is that?

Mr. SMITH of California. Do you have any testimony as to that, anywhere?

Mr. PATMAN. It is well known. You see, we have gone into all facets of this thing.

Mr. SMITH of California. Did you know that these notes carry that provision when they are sold to the bank?

Mr. PATMAN. I know it. I did not like it a darn bit.

Mr. SMITH of California. Banks do not like it either. That is what the note says.

Mr. PATMAN. Yes. I do not like it a darn bit, but they have been doing it. But it will not apply in this case.

Mr. SMITH of California. In your opinion.

The CHAIRMAN. Thank you, Mr. Patman.

Mr. PATMAN. Thank you.

The CHAIRMAN. Mr. Hanna?

Mr. PATMAN. Are you through with us, Judge?

The CHAIRMAN. Mr. Hanna, do you wish to testify?

Mr. HANNA. Nothing more than I have already stated, Judge, and I thank you for the opportunity.

The CHAIRMAN. That concludes that side of the case.

Mr. PEPPER. How much time?

Mr. PATMAN. We would like to have Mr. Widnall. How much time?

Mr. WIDNALL. Say at least 4 hours.

Mr. PATMAN. It is satisfactory with me, Mr. Chairman. The other bill, the small one, 2 hours will be all right.

Mr. WIDNALL. Two hours.

Mr. PATMAN. Four hours on the big one; 2 hours on the small one.

Mr. PEPPER. Did you want to waive a point of order on one?

Mr. PATMAN. Just one.

The CHAIRMAN. About waiving the points of order, we want to talk to you further about that.

Mr. PATMAN. Mr. Widnall, how would you feel about asking the judge to put them together and have them both at one time?

Mr. WIDNALL. I would rather have them separate.

Mr. PATMAN. All right. Separate. Four hours on one. Two on the other.

Mr. YOUNG. Four hours on one bill and two on the SBA.

The CHAIRMAN. Mr. Widnall, do you wish to testify?

Mr. WIDNALL. Yes, I do.

The CHAIRMAN. Mr. Patman?

Mr. PATMAN. Yes, sir.

The CHAIRMAN. Before you leave, you wanted to waive points of order?

Mr. PATMAN. Yes, sir.

The CHAIRMAN. We have had a great many requests for waiving points of order, and we are a little impatient about having to waive points of order on every bill that comes up here that ought to be drawn in order, and we want to know specifically—you said there is one item that was subject to a point of order. Will you give us a memorandum on it?

Mr. PATMAN. We will give you a memo, Judge.

The CHAIRMAN. Yes, on this specific point.

Mr. PATMAN. And the Parliamentarian is acquainted with it. I talked to him about it.

The CHAIRMAN. Yes. We will probably consider giving you a point of order on the one question.

Mr. PATMAN. Yes, sir; that is right.

The CHAIRMAN. But on all questions, we ruled that out the other day.

Mr. PATMAN. Very satisfactory.

The CHAIRMAN. Mr. Widnall.

STATEMENT OF HON. WILLIAM B. WIDNALL, A MEMBER OF CONGRESS FROM THE SEVENTH DISTRICT OF THE STATE OF NEW JERSEY

Mr. WIDNALL. Mr. Chairman, first of all, I would like to say—

The CHAIRMAN. Just a moment.

We have a good deal of business ahead of us. I would like to go along with this a little while if the members are willing.

Go ahead, Mr. Widnall.

Mr. WIDNALL. Mr. Chairman, first of all, I would like to urge the viewpoint that we should not waive all points of order on this bill. I think it is extremely important to allow points of order to be raised against it. I hope you will give it full consideration. You have indicated that you will.

Mr. Patman said there is nothing back door about this bill, that the Appropriations Committee had complete control over the amount to be spent.

Pages 6 and 7 of the bill do not agree with this. I call your attention to it.

The Appropriations Committee will have control only over the amount of assets to be pooled with FNMA. Once this approval is secured with no expenditure of funds, then a permanent and indefinite appropriation is created on the books of the Treasury from which untold millions of taxpayers' dollars can be drawn at any time in any fiscal year without any action by the Appropriations Committee.

This cannot be disputed.

Lines 1 through 7 on page 7 of the bill create the unlimited appropriations.

This is not backdoor spending; we can call it trapdoor spending.

Mr. O'NEILL. Pardon me, Mr. Chairman.

Judge, Mr. Widnall says he is going to be an hour. What are your plans?

The CHAIRMAN. I am at the pleasure of the committee and the witnesses.

What do you all want to do?

(Discussion off the record.)

The CHAIRMAN. We will come back at 2:15.

(Whereupon, at 12:10 p.m., Wednesday, May 4, 1966, the committee recessed to reconvene at 2:15 p.m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. Mr. Widnall, we will be glad to hear from you.

**STATEMENT OF HON. WILLIAM B. WIDNALL, A REPRESENTATIVE
IN CONGRESS FROM THE SEVENTH CONGRESSIONAL DISTRICT
OF THE STATE OF NEW JERSEY—Resumed**

MR. WIDNALL. Mr. Chairman, I was speaking of the fact that once this bill goes through, we are going to lose control through the appropriation process over millions and millions of dollars of expenditures of many of these programs that are in existence today, because Fannie Mae can be used as the instrument for a revolving fund without any control and review by the Congress. I don't believe you will find in the language of the bill a limitation on the ability to do these things.

The CHAIRMAN. You don't think it is in the bill?

MR. WIDNALL. No, I do not believe so.

The CHAIRMAN. How are they going to do it if they are not authorized? That is what has been bothering me. The bill is so vague that I am trying to find out just what the bill provides.

MR. WIDNALL. As I understand it, Mr. Chairman, this bill authorizes unlimited authorization for the future as far as use of these funds is concerned.

The CHAIRMAN. For the use of these funds?

MR. WIDNALL. They may be used without any control over future expenditures.

The CHAIRMAN. It authorizes an appropriation but it is right vague about any legal authorization for the appropriation. That is what I wanted to know. Do they have to have authorizations for each appropriation or can they just go on and appropriate it?

MR. WIDNALL. It seems to me from what we have in here, and I think it is on pages 6 and 7, beginning at the bottom of the page on line 24—

such an authorization in an appropriation act shall establish on the books of the Treasury as an appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interest or participations. Such trustor shall make timely payments to trustee from such appropriation.

The CHAIRMAN. From where are you reading.

MR. WIDNALL. This is the bottom of page 6 of the bill.

The CHAIRMAN. Page 6, line 6?

MR. MADDEN. What page?

MR. WIDNALL. Six.

The CHAIRMAN. "Whenever the issuance" and so forth, line 22. How do you construe that?

MR. WIDNALL. Unlimited appropriations, unlimited amount. I think as far as the minority is concerned, if we were absolutely assured that there was control of authorization and appropriation, this wouldn't be a particular problem with the bill. There are some other things in connection with it, but this is a big stumbling block in connection with it.

The CHAIRMAN. Have you prepared or suggested to the committee an amendment?

Mr. WIDNALL. I think we have something that might effect the change. It would probably take the form of striking out what is here and saying "there are appropriated to the trustors such funds."

The CHAIRMAN. I assumed, and the bill is so vague, but I assumed that this would be an appropriation for funds for any group of notes that were going to be offered for sale, not a whole blanket for the whole \$30 billion.

Mr. WIDNALL. That is true.

The CHAIRMAN. Do you understand that it will all come in one appropriation, the whole thing?

Mr. WIDNALL. No such understanding. I would like to read what I said before:

I believe the Appropriations Committee will have control only over the amounts of assets to be pooled with Fannie Mae, and once the approval is secured, with no expenditure of funds, then a permanent and indefinite appropriation is created on the books of the Treasury from which untold millions of taxpayer dollars can be drawn at any time in any fiscal year without any action by the Appropriations Committee.

Now that is a strong statement, and I would like to be disproven in making that statement if any one cares to try.

The CHAIRMAN. I think that is pretty obvious. In other words, the way the thing is worded, they have got to get an appropriation before they can set up a trust.

Mr. WIDNALL. Not appropriation but approval for pooling assets.

The CHAIRMAN. Approval for what?

Mr. WIDNALL. Approval of pooling.

The CHAIRMAN. What?

Mr. WIDNALL. Approval of pooling, not approval of appropriation. Approval of pooling certain assets.

The CHAIRMAN. No, I don't think they claim that. I think they claim that it is going to be appropriated. That out of this fund that is to be created from time to time they will have new pools, new issues of participation, and that before they can do that, they have got to have in each case an appropriation, and that is the thing that bothers me, because it is so vague.

Mr. WIDNALL. Mr. Chairman, I don't believe that is true.

The CHAIRMAN. What do you think is true?

Mr. WIDNALL. I agree with you that it is very vague, but I do believe that it would create unlimited appropriations by the language that is used here in the bill today, that you would not have to come back to the Appropriations Committee.

The CHAIRMAN. You mean that just one appropriation would take care of the whole kit and caboodle?

Mr. WIDNALL. Just approval of the pooling of the assets.

The CHAIRMAN. You talk about approval of by the Appropriations Committee. The Appropriations Committee can't finally approve anything. Congress has got to do it. You agree with that, don't you?

Mr. WIDNALL. They would be doing it by this bill.

The CHAIRMAN. Oh, no.

Mr. WIDNALL. This is it, I think, for the future, what goes through in this bill.

The CHAIRMAN. Go back to page 4 and let's get that straight.

Mr. WIDNALL. It was page 6 that we were talking about before.

The CHAIRMAN. Well, "Beneficial interests or participations shall not be issued for the account of any trustor," which indicates that there is going to be more than one appropriation, "in an aggregate principal amount greater than is authorized with respect to such trustee in an appropriation act."

Now that means that it has got to be in an appropriation act, and you don't have an appropriation act until Congress passes it; am I right?

Mr. WIDNALL. As I understand it, it is the approval of the pool. Now they do not have to come back to Congress for the payment of interest on the national debt. This becomes sort of a national debt transaction where they have got to pay the interest, and this is automatic without going back to an Appropriations Committee. The Appropriations Committee doesn't appropriate for interest.

The CHAIRMAN. All right; go ahead.

Mr. WIDNALL. Now some mention was made about past action under the Eisenhower administration. I think some distinctions should be drawn for the benefit of the committee because there can be a very understandable misunderstanding with respect to this, if you don't go back and look at the record. The original sales under the Eisenhower administration were the sale of assets and a genuine sale with transfer of title. This bill does not do it. Title to the assets—the Eisenhower program didn't go around the budget. This bill does. There are several other differences. But if the bill before us does no more than the Eisenhower program, then why do we need the bill? We have—and I want to emphasize this, Mr. Chairman, I would like to emphasize this—the minority party has not and still does not oppose the actual sale of marketable assets. This must be made clear.

But we do oppose any phony sale of nonmarketable assets which serves to, first, run around the appropriations process, run around the statutory $4\frac{1}{2}$ percent interest rate on bonds, and that is important, $4\frac{1}{4}$ I mean, run around the budget, the debt limit, and further, and I think this is extremely important, tighten the home mortgage market, which is extremely tight at the present time.

Now apropos of that I think you will be rather interested in this. I am a member of the Joint Economic Committee. I was over at some hearings during the past week. We have had before us those who manage the pension funds of a number of the unions, and we have had testimony as to what they invest in with respect to the unions. Those who testified for the Carpenters Union said that they had 60 percent of the assets of the pension fund invested in Government securities and bonds on which they were receiving a return of $4\frac{3}{8}$ percent.

I said to them, "Have you looked into this participation sales program that is now in the offing in the Congress, and do you think you will be interested in it?"

The witness said they had just found out about it in talking to another union, who had just purchased some of the guaranteed debentures that have gone out of the Small Business Administration, and the other union told them they were buying every blessed one they could get.

I said "doesn't that mean then that you would probably get rid of your $4\frac{3}{8}$ -percent Government securities and go into a program where you are going to get $5\frac{5}{8}$ to $5\frac{3}{4}$ percent, as they did under the sale of the debentures under the small business program?"

He said, "Yes, we probably would." This is certainly robbing Peter to pay Paul. The taxpayers are certainly ending up with paying considerably higher interest, and I think it is a very interesting thing to be taken into consideration with respect to the entire program.

Mr. Patman, our distinguished chairman, said when he testified, that SBA had sold the cream of securities. Well, now if they sold the cream of securities under this program, I don't know how many members of the committee are aware of it, but they sold them at 91.68 cents on the dollar. They received \$91.68 for every \$100 of assets in connection with this sale——

The CHAIRMAN. Sold them at a discount?

Mr. WIDNALL. That is exactly what took place.

The CHAIRMAN. Are they guaranteed by the Government?

Mr. WIDNALL. By SBA. But they are saying you have unlimited call upon the Treasury. That is a Government agency, and it has the full guarantee even though it is not written in the prospectus.

Now there is a very interesting thing in connection with the way these were sold, while I am talking about that, not SBA but Fannie Mae. Here is the prospectus in connection with the sale of participation certificates in the Government mortgage liquidation trust of Fannie May on four different occasions, one dated October 1964, one June 15, 1965, one dated November 16, 1965, and one dated March 16, 1966. These participation certificates were sold through four underwriters, Merrill Lynch, Pierce, Fenner & Smith, Salomon Bros. & Hutzler, First Boston Corp., and Morgan Guaranty Trust Co. of New York.

On the first issue Merrill Lynch is listed first, on the second they have changed the order, Salomon Bros. & Hutzler moved up to first, and Merrill Lynch at the bottom. The next one First Boston Corp. first, Salomon Bros. goes down to the end, next one Morgan Guaranty Trust of New York first, and the First Boston Corp. at the bottom of the list. These four are the ones who are evidently involved completely in the sale of these Fannie May certificates, and in the sale of the SBA certificates Salomon Bros. & Hutzler just sold I believe \$110 million under a negotiated contract without any bids on the part of those who might handle, and actually I think the record will prove this, that both the chairman and I thought it was an outrageous setup, the way this had been determined, and as to what had taken place, and it had reached the point where with our hearings on the Senate bill, and I will have to look for the number of it, Senate 2499, it reached the point where we adjourned our hearings on it, and the staff was instructed to look into this sour situation, and to conduct staff hearings on it.

Now let me point this out to you. These staff hearings were held. We have cut off hearings on Senate 2499. It was our understanding on the minority side that there would be no further hearings on this, and that this bill would be abandoned. This was not directly said by the chairman, but this was our understanding, because it just didn't seem to be working out right, and it seemed to have a little bit of a sour odor.

The CHAIRMAN. The chairman is asking for a rule on that bill.

Mr. WIDNALL. I know, but I just want to bring you up to date from our side as to our understanding. We are now considering S. 2499 and H.R. 14544.

Mr. ANDERSON. Could I interrupt with a real quick question. Was S. 2499 voted out in this same session?

Mr. WIDNALL. After the other bill.

Mr. ANDERSON. But at the same time.

Mr. WIDNALL. At the same time.

The CHAIRMAN. Let me ask a question. Those sheets that you held up here and talked about a while ago, what was the matter with that, the price they were sold at or what?

Mr. WIDNALL. Oh, no; no. I was going to go on to that.

The CHAIRMAN. You said you and the chairman agreed that it was an outrageous thing to do.

Mr. WIDNALL. No, not on these.

The CHAIRMAN. Well, what was the point of those? I missed it.

Mr. WIDNALL. I did not finish with respect to this. I was coming back to it. The participation certificates were sold in denominations of \$5,000, \$10,000, \$25,000, \$100,000, \$500,000 and \$1 million.

The CHAIRMAN. Yes?

Mr. WIDNALL. \$10,000, \$25,000 up to \$1 million, \$10,000 up to \$1 million, \$10,000 up to \$1 million.

The CHAIRMAN. Yes.

Mr. WIDNALL. It would certainly seem, I would say no small investor sale as far as the sale of these certificates was concerned. It would seem to me this is a big bankers sale, a real big operation that takes care of the big bankers on a fine interest rate basis.

The CHAIRMAN. I would gather that such things as insurance companies would invest in them heavily.

Mr. WIDNALL. They might also, but there is no denomination on a Federal Reserve note higher than \$10,000, I think, Judge. It seems to me that when you are talking about million-dollar participations you talk big money and big interest in connection with it.

The CHAIRMAN. I think that you gentlemen ought to agree and we ought to be informed and everybody ought to be informed as to what extent the Federal Government guarantees the payment of principal and interest on these certificates. Now the ones that were sold and shown here this morning, that specifically said that they were not guaranteed——

Mr. YOUNG. Mr. Chairman, would you yield at that point? I have here, and I ask that a copy be made of it, an excerpt from the United States Code annotated touching on the general law with regard to Fanny May and its authority to draw on the Treasury of the United States on its obligations in the furtherance of the law. I am not going to take the committee's time but I ask that a copy be made of it because I think that pretty well answers the question that you have just asked, Mr. Chairman.

It is really contained in the authority that Fannie Mae has to call upon the Treasury to meet its obligations.

The CHAIRMAN. Then why do they sell them saying that they are not guaranteed?

Mr. YOUNG. I didn't get your question, sir.

The CHAIRMAN. Why do they put out a prospectus for the sale of these participation certificates and specifically say that they are not guaranteed by the Federal Government?

Mr. YOUNG. Well, Judge, I don't know that I can answer that. I presume it is because they are not——

The CHAIRMAN. Don't you think we ought to know.

Mr. YOUNG. Yes, sir, I do think we ought to know. I certainly do. I presume it is because they are not guaranteed to the extent of full faith and credit, but Fannie Mae has the authority to draw on the Treasury for sufficient funds to carry out its obligations. That is another way of saying guarantee.

Mr. WIDNALL. In answer to what you said, under the basic law with respect to the creation of Fannie Mae, it says:

The association shall insert appropriate language in all of its obligations issued under this subsection clearly indicating that such obligations together with interest thereon are not guaranteed—

it is in the law—

are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality of other than the Association.

That is in the law, and in these prospectuses that were offered, they merely say "timely payment of principal of an interest on the participation certificates is guaranteed by the Federal National Mortgage Association, a corporate instrumentality of the United States."

Mr. YOUNG. Judge, if the gentleman would yield, what they are saying there is that the full faith and credit of the United States is not pledged as it is on a Government bond or on a piece of currency. You couldn't take one of these mortgages or money certificates up to the Treasury and say "I want my money on this thing" like you could with a dollar bill or a \$10 bill. It is not guaranteed to that extent.

But the authority for Fannie Mae to call on the Treasury and draw money from the Treasury to meet its obligations is provided in the general law. That is the only point I am trying to make. That is correct.

Mr. WIDNALL. That is right. But the final thing on this says the participation certificates, Mr. Chairman, are not obligations of and are not guaranteed by the United States. This is right up in the heading on the prospectus.

The CHAIRMAN. That is what I am talking about.

Mr. WIDNALL. It is accordance with the law.

The CHAIRMAN. Are they guaranteed or are they not guaranteed? Can anybody answer that.

Mr. WIDNALL. They are not guaranteed by the United States.

The CHAIRMAN. Mr. Patman says they are guaranteed. Now let me ask you one more question if I may to divert from that for just a moment. But if these are guaranteed, and Mr. Patman says they are, and they pay 5 percent interest, and Government bonds—

Mr. WIDNALL. 5.5.

The CHAIRMAN. 5.5, and Government bonds pay 4 and something, how are you going to sell Government bonds in competition with these higher rate of interest bonds?

Mr. WIDNALL. That is a very good question, Mr. Chairman. How are you going to sell them.

The CHAIRMAN. You have got to sell them.

Mr. WIDNALL. This is a very clever way of getting around that ceiling of 4.25 percent on Government obligations, on bonds.

The CHAIRMAN. Gentlemen, I think this is too important not to have a quorum here. There is a quorum call on. I think we will have to suspend and ask the witnesses to come back.

Mr. YOUNG. What time, Judge?

The CHAIRMAN. Maybe we had better go over until tomorrow morning.

What do you think?

Mr. MADDEN. Tomorrow morning is all right with me.

Mr. YOUNG. 10:30 in the morning?

The CHAIRMAN. 10:30 in the morning.

(Whereupon, at 2:50 p.m., the committee was adjourned, to reconvene at 10:30 a.m., Thursday, May 5, 1966.)

TO PROMOTE PRIVATE FINANCING OF CREDIT NEEDS—TO AMEND THE SMALL BUSINESS ACT

THURSDAY, MAY 5, 1966

HOUSE OF REPRESENTATIVES,
COMMITTEE ON RULES,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room H-313, the Capitol, Hon. Howard W. Smith (chairman) presiding.

Present: Representatives Smith of Virginia, Madden, Delaney, Trimble, Bolling, O'Neill, Sisk, Young, Pepper, Smith of California, Anderson, Martin of Nebraska, Quillen, and Latta.

The CHAIRMAN. The committee will be in order.

We had Mr. Widnall as a witness yesterday.

Mr. Widnall, we will continue the hearing on H.R. 14544.

If you will come forward, please.

Now, if we can get down to this business, we can probably conclude sooner.

Mr. Widnall, do you have any further statement you wish to make?

STATEMENT OF HON. WILLIAM B. WIDNALL, A MEMBER IN CON- GRESS FROM THE SEVENTH CONGRESSIONAL DISTRICT OF NEW JERSEY—Resumed

Mr. WIDNALL. Yes, I have, Mr. Chairman.

I would like to begin by addressing myself to the SBA bill, the Senate bill, S. 2499, which is also before you.

I would like to ask the committee to keep this in mind. The Congress has for many, many years, been deeply concerned about the efforts to destroy the independence of the Small Business Administration and, in fact, many Democrats and Republicans, both, have registered their opposition to its transfer to the Department of Commerce, which was being suggested early this year.

I know I testified before a Senate committee earlier this year, at a time when Senator Sparkman and others were very much worried about this.

Now, we have passed new authorizations for SBA. We have given them more than they asked for, and I would like to emphasize that. They have unused \$35 million in appropriations authorizations for this fiscal year. The Bureau of the Budget has never let them come in for a supplemental appropriation. The SBA, and I would like to have this emphasized, has never been turned down by the Appropriations Committee. It is being held a hostage for the participation sales bill.

Most important, if Congress loses its control over annual appropriations for SBA's activity, as this bill would do, what will Congress use with the White House as its bargaining position when and if it is announced that the SBA will be transferred to the Department of Commerce? I do not think there is anything left for Congress to talk about if we go ahead with the new procedure.

This applies as well to the House bill as to the Senate bill.

Now, to come back to the other bill, I still maintain that it is possible, under this participation sales bill to offer \$33 billion of Government-held assets for sale through this program, actually to put into trusteeship and sell the participation. It would still, as I emphasized yesterday, permit the continuation of all these programs, without another look at it by the Appropriations Committee. And I think this is extremely important, because I do not believe Congress wants to lose control—at least, the right to review the activities of all these very important Departments of the Government.

I find that many, many groups have been alarmed by the expeditious action of the committee on the House bill. Several have spoken to me over the last couple of days—the Farmers Union, the National Grange. They both would have liked to testify on it. In one case, the Farmers Union asked—

The CHAIRMAN. Will you suspend a moment?

Mr. WIDNALL. Yes, sir.

The CHAIRMAN. Mr. Patman, the chairman would like to submit to the committee an amendment which you are probably familiar with in a general way. He thinks that perhaps you would like to have that amendment submitted to the committee.

Mr. WIDNALL. It was brought to my attention this morning. There was a telephone call last night saying the amendment was being prepared. I saw it just a few moments ago. Let Mr. Patman speak on it first and then I would like to make a comment.

STATEMENT OF HON. WRIGHT PATMAN, A MEMBER OF CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF TEXAS

Mr. PATMAN. Mr. Chairman, at your suggestion and that of other members who were not entirely satisfied with the possibility that \$33 billion of direct loans would come within the participation bill, the Treasury last night notified Mr. Widnall and notified me, that they would be willing to spell this thing out. You insisted that it should be spelled out. And, of course, they were impressed with that; I was, too. So it is being spelled out here by an amendment.

Now, if it is at the wrong place in the bill, that can be corrected, because this will be offered as an amendment on the floor of the House to the right section. I understood there is some question about whether or not it is in the right section. But we will get it in the right section, Mr. Chairman, if it is approved.

Now, on page 3, delete lines 3, 4, 5, and 6, and substitute therefor the following:

(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as herein provided by each of the following departments or agencies—

This is the restriction—

Department of Agriculture; Farmers Home Administration; Department of Health, Education, and Welfare; Office of Education (with respect to loans construction of academic facilities); Department of Housing and Urban Development (including the Federal National Mortgage Association); Veterans' Administration; Export-Import Bank; Small Business Administration.

The head of each such department or agency hereinafter—

And then it continues on.

I feel, Mr. Chairman, that this restricts it down to about \$10 billion—

The CHAIRMAN. I was told \$5 billion. I was told it would cut this down to \$5 billion, which is what we have been talking about that would be available for these purposes.

Mr. PATMAN. Well, for the fiscal year 1967, it is \$4.7, I believe, but for this fiscal year, preceding June 30, it would be about \$2.3 billion, if my understanding is correct. The exact figures are in the budget on page 426, and it is \$3.2 billion for 1966, and \$4.7 for 1967.

Mr. WIDNALL. Mr. Chairman, I do not think it still removes the basic objection of mine. I feel it is extremely important that this bill be referred back to committee. I do not mean for further hearings, but at least to have the agency people come up and spell out exactly what they want to do on this, how much is involved, so that we know where we are going.

I do not think the Rules Committee is the proper place to be rewriting this bill. I think there are several other places in the bill that should be looked at and read line by line in order for us to do something that I think Congress itself, on both sides of the aisle, would like to do.

I realize we have some basic problems in financing the Government.

The CHAIRMAN. Let me ask you one question right there.

You are entirely right that we ought not to be amending a bill that the Rules Committee does not know enough about. If you and your chairman could agree to have a session of your committee and talk this thing over, do you think that the basic purposes of the bill could be carried out with some minor amendments? Otherwise, what is the use of having your committee? We can just throw this on to the floor and let it grow into a state of confusion.

Mr. WIDNALL. I think there is a possibility of doing that, but I do feel what is most important has not been done up to now.

We have not really had any witnesses from anywhere except the Government. We have not heard any witnesses who would be involved in the purchase of these participation notes, and the ultimate distribution of the notes. We have no testimony as to the impact on the economy and as to other segments, or segments of business that are involved in lending programs.

It would seem to me, too, that the institutions that are going to be involved, and evidently there are four that would be narrowed down to in the sale of these participation notes, they ought to be heard from, too.

I do not know why these things should not be sold under open bidding. I do not know why there should be—why it should be a question of four big brokerage houses just being the ones who handle all the

business. It seems to me that the taxpayers and the Government would have a better deal if it could be opened up for bid.

I just regret very much, Mr. Chairman, that we had such a short time in the committee to consider this bill. It is far too important in setting a precedent for the years ahead. It does differ from what we have done under the Eisenhower administration.

I would just like to address myself to that for a moment.

The Eisenhower sale of assets constituted a general sale, with transfer of assets, and this bill does not transfer title. The Eisenhower program did not go around the budget and this bill does.

I believe that this bill runs, completely runs around, the appropriations process and most important, too, it is a device being used to get around the statutory 4.25-percent interest rate limitation that we have at the present time on Government securities—Government bonds. I think that it is far too important to be handled the way it has been handled up to now, and we ought to have a mighty good, hard look at it.

Mr. LATTI. May I ask a question at that point, Mr. Chairman?

The CHAIRMAN. I would just rather he would complete his statement.

Have you completed your statement?

Mr. WIDNALL. I have completed my statement.

The CHAIRMAN. Well, Mr. Smith?

Mr. SMITH. Mr. Widnall and Mr. Patman; in connection with this amendment which spells out several agencies, I refer you to the report on page 8, section 302(c), where the amendments are set forth in accordance with the requirements of the Ramseyer rule. Starting with the italics on line 10, it goes on—

and other types of securities, including any instrument commonly known as a security hereinafter in this subsection called obligations—

And then the part of the sentence which concerns me—

* * * in which the United States or any executive department, agency, or instrumentality thereof may have a financial interest.

I have just seen this amendment, but looking at it quickly, this particular language, the last that I read: "in which the United States, or any executive department, agency, or instrumentality thereof may have a financial interest," would be directly in conflict with the amendment and the two could not stand.

In other words, you cannot name them individually and include every department or agency. That would have to go out, and this new language go in there. You have studied this amendment. Where did you intend to put it, and what thought had you given to the particular language with which I am concerned? I am talking about the amendment Mr. Patman has handed me this morning.

The CHAIRMAN. That is not Mr. Widnall's amendment?

Mr. SMITH. I am asking both Mr. Patman and Mr. Widnall.

Mr. PATMAN. That language is deleted in the amendment.

The language of the bill referred to by the gentleman from California, Mr. Smith, is deleted by this amendment.

As I stated, this amendment was drawn during the night, and if there are any statements that do not fit into the bill with reference to page and line number, that can be corrected. But the basic infor-

mation, I think, is in here as to the agencies that will be included, and only to them.

Mr. SMITH. Let me carry it a little further, Mr. Patman, so we will be sure we know what we are trying to do. We are now on page 9, the second paragraph. That is where the amendment is to be inserted as now drawn. You are striking out: "subject to the limitations provided" and so forth, lines 3, 4, 5, and 6 on page 3 of the bill. That language is your change, but your amendment says nothing about the previous sentence I mentioned, where you have opened it to every executive department and agency.

You cannot have both; you cannot have the language in section 302(c) (1) covering everybody, and then in section 302(c) (2) put your amendment, limiting it to specific agencies.

Mr. PATMAN. We can put a phrase in there.

Mr. SMITH. My point is that the first part will have to be deleted, and you will have to have a period after "obligations." You cannot have it plus and minus.

Mr. PATMAN. It is difficult so quickly, you know, to go into the report and the bill—

Mr. SMITH. I understand that.

Mr. PATMAN. But our objective here, I think, is very plain and I assure you we will have the amendment in the right form to insert in the correct part of the bill.

Mr. SMITH. I just made that suggestion as a help, that is all.

Mr. PATMAN. I think your suggestion is a helpful one.

The CHAIRMAN. Mr. Madden, do you have any questions?

Mr. MADDEN. No.

The CHAIRMAN. Suppose we find out right now what that suggestion is. What is Mr. Fink's suggestion?

Mr. FINK. In the report, page 8, which has the Ramseyre.

The CHAIRMAN. Tell us again what you propose.

Mr. FINK. Right there in italics, "in which the United States or any executive department, agency"—this is in italics on page 8 of the report.

The CHAIRMAN. What would you do with it?

Mr. FINK. You would strike that out.

The CHAIRMAN. You would strike out the change as shown in the report.

Mr. FINK. Strike out that part of the change, "in which the United States or any executive department, agency," and insert in lieu thereof a reference to the agencies listed in 302(c) (2). Just make reference to it.

Mr. PATMAN. Would that have the effect of including them?

Mr. FINK. It would limit what FNMA could accept.

Mr. PATMAN. Mr. Chairman, we will work with the minority and get up the right kind of amendment, one that will get this particular job done. We know that we cannot do it quickly or in a few minutes' time, or in 1 day, maybe, to reconcile the report and the bill completely to restrict it to the named agencies. But I assure you we will do it in the correct form.

The CHAIRMAN. I was wondering whether we could just adjourn this until you get this thing straightened out and come back next week, or would you rather that we go ahead with the hearing?

Mr. PATMAN. We would rather you go ahead, because we had hearings on this. Mr. Widnall was correct when he said we had very little hearings, just two witnesses, on the big bill.

But we had hearings for many days and from many different people—in fact, I do not know of a single witness that asked to be heard and was not heard—on the companion bill that related to the Small Business Administration. The same issues were involved and we did not see any reason why we should go through the same issues on another bill. He is correct when he said there was brief consideration given to the big bill, but we had gone over the same ground on the smaller bill.

The CHAIRMAN. We will go ahead with Mr. Widnall.

STATEMENT OF HON. WILLIAM B. WIDNALL, A MEMBER OF CONGRESS FROM THE SEVENTH CONGRESSIONAL DISTRICT OF NEW JERSEY—Resumed

Mr. WIDNALL. Mr. Chairman, this House bill is a much broader bill than the other bill and has a far greater impact than S. 2499 has. Certainly, there should have been other witnesses called to demonstrate that impact to the committee so that we would have the benefit of their views.

The small business bill, the Senate bill, is not needed if this one passes. The small business bill is at variance with this. If the small business bill were passed after this one, it being the last one passed, it would change some of the effect of the participation sales note bill, this full one. They have not been coordinated at all.

I still feel that it is a rather haphazard way of doing business at this time and I wish we could have some further plan to take a look at it and come back to you people again and see if we can have some meeting of the minds on it.

Mr. PATMAN. May I comment on that, Mr. Chairman?

The other bill is needed, the Small Business Administration bill is needed now, it is urgent. It involves about \$350 million between now and the end of this fiscal year, June 30, 1966. We can place specific language in H.R. 14544 that when the \$350 million are sold, the SBA bill will no longer apply. It is not intended that the bills overlap. One is for the small business exclusively, involving \$350 million. On page 4 of your committee report on S. 2499 that point is expressly stated. It is needed now; it is urgent. Any delay would be certainly detrimental to the small concerns of the Nation, Mr. Chairman.

It would be detrimental and I urge you to pass on this matter one way or the other and get it to a vote as quickly as possible.

The CHAIRMAN. You are talking about the SBA bill now?

Mr. PATMAN. That is right, the little bill.

The CHAIRMAN. You would like to get that out?

Mr. PATMAN. Both of them. I would like to get both of them out.

The CHAIRMAN. We are working on it as fast as we can, but there are a lot of differences of opinion, and differences of construction. What this language means is bothering all of us. It is bothering me immensely, because I want to get something done but I do not want to make some more mistakes like the mistake Congress made 10 years

ago in turning the housing business over with a blank check to the Treasury.

Mr. WIDNALL. Mr. Chairman, there is no limitation on the small business bill. There is no limitation on time in that small business bill. Therefore, there is no urgency on it as far as that is concerned. There is already a \$30 million authorization that the Small Business Administration has that they can take advantage of by immediately asking the Appropriations Committee to come through with an appropriation for it.

I am absolutely positive they would give them that appropriation if the request were made and it could be done very expeditiously.

The CHAIRMAN. Do you have any objection to the Small Business bill?

Mr. PATMAN. We can put language in that will restrict it—

The CHAIRMAN. Let me get an answer to my question.

Mr. WIDNALL. I do, because it conflicts with H.R. 14544.

Mr. MARTIN of Nebraska. Mr. Chairman, did we not recently have an SBA bill up here that the President signed the other day? If there was such a great emergency, why did the President not take care of it at that time. It was only a short time ago.

Mr. PATMAN. You see, on this smaller bill, it is not intended that participation sales thereunder would exceed \$350 million. If anyone wants an amendment to that effect put in the bill, it will be perfectly all right with us. It is just interim financing between now and the end of June 1966. It is urgent and pressing; it is needed.

Mr. SMITH. I have just one more question.

Referring to your amendment, Mr. Patman, the first five Departments named—Agriculture, Health, Housing, Veterans' Administration, Export-Import Bank—am I to understand that none of the Secretaries of these Departments has testified on the big bill we are considering here today, that is, on H.R. 14544?

Mr. PATMAN. On the big bill we did not consider it necessary to obtain such testimony, that is the majority of the committee members did not, because we covered the same points on the companion bill, with exactly the same problems.

Mr. SMITH. The other bill, I thought, referred to just the Small Business Administration. Did the head of the Veterans' Administration say whether or not he wants the bill? Has he come before the committee?

Mr. WIDNALL. Nobody appeared before the committee on either bill except the head of the Small Business Administration.

Mr. PATMAN. Of course, the Secretary of the Treasury and all the people having to do with it appeared. We had as full and complete information on this bill as I think you will ever find on any bill coming from a legislative committee.

The CHAIRMAN. Mr. Widnall, did you finish?

Mr. WIDNALL. I have finished.

The CHAIRMAN. Mr. Madden, have you any questions?

Mr. MADDEN. No questions.

The CHAIRMAN. Have you any questions, Mr. Anderson.

Mr. ANDERSON. Just one question.

Mr. Widnall, if this amendment we have been talking about this morning were adopted, it would apply to the Department of Agricul-

ture and the Farmers Home Administration as I read it. It still would not take care of the objection, would it, that has been raised to me by the representative of the Farmers Home Administration who says that this would turn over farmers' loan paper to the Federal National Mortgage Association, and that this organization deals primarily with eastern banks and with institutional investors. The local banker would be short circuited under this kind of approach, and as a result, higher interest rates might well be the price that the farmer might then be obliged to pay for this sales participation program? That is very possible. I believe that is what the Farmers Union and the National Grange wanted to testify about.

Mr. ANDERSON. This would not be changed one iota by adopting this amendment, would it?

Mr. WIDNALL. No.

Mr. ANDERSON. Higher interest rates would still be in the offing.

Nor would the amendment resolve the point that has been raised about getting around the 4.25-percent ceiling on long-term Government bonds; this would still be true, would it not?

Mr. WIDNALL. Completely true.

Mr. ANDERSON. With respect to the amendment, even if that were adopted?

Mr. WIDNALL. Oh, yes.

Mr. ANDERSON. That is all I have.

The CHAIRMAN. Mr. Delaney?

Mr. DELANEY. In the testimony yesterday, it seemed that Small Business in the past has sold their assets at a discount.

Mr. WIDNALL. They sold \$110 million worth of their assets just recently.

Mr. DELANEY. At a discount?

Mr. WIDNALL. At an 8.5-point discount.

Mr. DELANEY. Now, who decides what the discount is?

Mr. WIDNALL. This was done, evidently, by negotiations between the Small Business Administration and the sales people—in this case, Salomon Bros. & Hutzler who were selected to do the selling.

Mr. DELANEY. Under what authority did the Small Business Administration sell?

Mr. WIDNALL. They have the right to sell assets.

Mr. DELANEY. Under what authority in the law?

The CHAIRMAN. I am not getting that clearly.

Mr. DELANEY. The Small Business Administration sold their assets at a discount of 8.5 percent, negotiated with one of the large corporations.

The CHAIRMAN. Small Business?

Mr. DELANEY. Yes. And the amount was, you said—

The CHAIRMAN. Would that be possible under this bill?

Mr. SMITH. They can do it now.

Mr. PATMAN. This bill would cure that.

Mr. WIDNALL. They can actually do it now. The Small Business Administration, under existing law, has the power to sell assets.

The CHAIRMAN. Sell them or give them away?

Mr. DELANEY. Well, they sell them at a discount. They sell them at a discount of 8.5—there were \$300 million here.

Mr. WIDNALL. They were sold at 91.6 cents on the dollar.

Mr. DELANEY. Now, this amounts to a \$25 million giveaway, is that right, out of \$300 million?

Mr. WIDNALL. That would be right.

Mr. DELANEY. It is only \$25 million now.

Mr. WIDNALL. On \$300 million.

Mr. DELANEY. So the Small Business Administration can give \$25 million discounts to one of the Wall Street houses?

Mr. WIDNALL. That is what it amounts to.

Mr. DELANEY. Is that right?

Mr. WIDNALL. Yes, sir.

Mr. DELANEY. I want this cleared up, too. There is \$3 billion in this, and if they can give away \$3 billion at 8 or 10 points—

Mr. PATMAN. There is another verse to that.

The CHAIRMAN. That is what we want to have explained.

Mr. Patman interjected that was cured by this bill. That is what I want explained.

Mr. PATMAN. Yes, sir. That is one of the objects of this bill. They have a hundred different agencies of the Government that can make loans of one type or another, and they are beginning to run in different directions. The Small Business Administration was desperately in need of funds, and they had the right under existing law, to make these direct sales. Of course, the discount is by reason of a higher interest rate. That is the cause of it.

However, this bill would cure that.

I would like to just make the record clear that this offering was not—that is the sale of a \$110 million of SBA assets was not a participation pool arrangement, but was the sale of individually selected 20-year debentures. Had SBA been authorized to pool these debentures and sell shares in the pool rather than individual debentures, I am certain the agency would not have had to pay $5\frac{3}{4}$ percent interest to debenture purchasers.

I think the remarks made by Mr. Widnall make a prima facie case for the immediate adoption of the legislation before us.

You see, we are curing and correcting the things that are considered abusive, and I think they are abusive. I agree with Mr. Delaney.

The CHAIRMAN. Now, may I ask you a question?

Mr. PATMAN. Yes, sir.

The CHAIRMAN. Is it the intent of the people who are trying to put this bill through that anybody can have authority to sell these bonds at less than par?

Mr. PATMAN. No; the idea is—

The CHAIRMAN. Then why do you not say so in the bill?

Mr. PATMAN. You cannot sell them at par, because interest rates have gone up. You have to reflect the going interest rate; otherwise, it is not a marketable security. You have to make it a marketable security. The only way to do this is sell—

Mr. WIDNALL. Mr. Chairman, earlier in the hearing, our chairman stated to you that SBA, in selling the \$110 million, had pooled the cream of their securities.

Mr. PATMAN. I said they could pool the cream.

Mr. WIDNALL. No, you said they pooled the cream of the securities. They got 91.68 and pooled the cream of their securities.

I would like to have pointed out to me by the chairman where this bill, H.R. 14544, prevents a recurrence of what has taken place through SBA. I do not believe it can be pointed out.

Mr. DELANEY. I started to raise the question, and I did not get any answers.

The CHAIRMAN. Excuse me. I interrupted.

Mr. PATMAN. They would have to pool these through FNMA, under the new proposal.

The CHAIRMAN. Will everybody suspend for a moment?

Mr. Delaney says he has not gotten an answer to his question.

Mr. DELANEY. I directed the question to the speaker at the end of the table, under what authority does SBA have the right to sell bonds or assets at a discount.

Mr. WIDNALL. The SBA has the authority in the act, which says that they can sell their assets, and there is no limitation on the way they can sell them.

Mr. PATMAN. I believe the authority of SBA to make such sales is found in section 4(c) of the act.

Mr. DELANEY. Now, the testimony is that these were individually selected 20-year loans that were sold. Well, there is a great deal of discussion in there as to whose loans they are going to take out, individually sell them, and sell them at a discount. Is that not right?

Mr. WIDNALL. That is true.

Mr. DELANEY. If I happened to be the Administrator, I could take out whatever I thought I wanted and it was testified here that the cream of the assets were taken out and sold at 8 percent—8.5 percent—nearly 9 percent discount.

Now, the amount of money involved in this thing amounts to—well, I think it was mentioned here—\$3 billion.

Does anyone realize what an individual could do with the Government's money? That would be \$90 million, on a billion dollars, and if you have 4 billion, it would be \$360 million that somebody can offer at a discount.

That is possible under the existing law, is it?

Mr. WIDNALL. Yes.

Mr. PATMAN. May I comment on it?

Mr. DELANEY. One second.

Mr. WIDNALL. It would be possible under this bill.

Mr. DELANEY. Has this committee ever made an investigation or done anything to put limitations on it?

Mr. WIDNALL. No.

Mr. PATMAN. Under this bill, it could not be done. I disagree with my good friend, Mr. Widnall, on that, because it would all have to be done through the FNMA, the Federal National Mortgage Association.

You see, this bill requires a pooling of agency obligations. It would thus eliminate the situation that developed in the SBA sale of picking out one New York broker and giving him an exclusive deal. I think that was terrible, as are several other things about that deal. This bill is to stop that and to have it done right.

The abuses that arose in the SBA sale cannot happen under this bill. The object of this bill is to prevent such abuses.

Now, the reason for these discounts obviously is, to reflect the present markets for such securities. Interest rates have gone up. The Government had nothing to do with that. The Federal Reserve, acting independently, in defiance of the President, in defiance of the Congress, went ahead and raised the interest rates 37.5 percent in December. That is the cause of all this. This reflects a tight market in money, which means high interest rates, and these discounts further reflect the going rate of interest, a going rate of interest, which we did not have anything to do with.

The Federal Reserve did that.

And we do not seem to be able to make them change their minds. They just will not do it.

Mr. DELANEY. You say we do not seem to be able to make them change their minds. Is that not part of your job?

Mr. PATMAN. We—Congress—would have to pass a law. Mr. Martin has given us notice that he is going to continue to act that way, regardless of what we do or say, as long as the law is as it is.

In other words, he is acting in defiance of the law. That is my personal opinion. He has given us notice that he is going to continue to so act unless we change the law.

Now, it is very difficult to change any law concerning money, you know that. This is so because there are a lot of people in a democratic form of government that can say "No" and make it stick. However, there is not one person, not even the President, who can say "Yes," and be certain about it.

Mr. DELANEY. This statement you make here now, that there is very little you can do about it—

Mr. PATMAN. We can do it by law, but we do not have the sentiment in Congress or the law.

Mr. DELANEY. If the facts were fully explained, do you not think that we could get the sentiment for it?

Mr. PATMAN. I have been explaining them for 30 years, and I have not succeeded.

Mr. DELANEY. Not this phase of it.

Mr. PATMAN. It is the same thing. It is issue of independence of the Fed.

Mr. WIDNALL. Mr. Chairman, I would like to say this again in connection with H.R. 14544. This tells how participations may be sold through pooling of assets through FNMA. It does not say that any of these agencies have to sell through FNMA. It does not stop an existing practice. It is wide open.

Mr. PATMAN. It certainly should. If it does not, we will make it that way.

The CHAIRMAN. You mean that they can still go on doing like they are doing now?

Mr. WIDNALL. Yes.

The CHAIRMAN. Acting independently of FNMA?

Mr. WIDNALL. There is nothing to prevent it.

Mr. PATMAN. That is the Senate bill he is talking about.

Mr. WIDNALL. I am talking about H.R. 14544.

The CHAIRMAN. You are talking about the Senate bill?

Mr. WIDNALL. No; I am talking about the House bill.

The CHAIRMAN. I think we have gotten out of one booby trap and jumped into two more. I would like to see this thing clarified.

Mr. O'NEILL. How do you discount this paper?

The CHAIRMAN. Gentlemen, we are trying to get a transcript of this because there seems to have been so little hearings.

I am anxious to get a fair transcript; yet the stenographer at this end cannot hear you and neither can I.

Mr. O'NEILL. I would like to know how you discount a \$110 million loan. If \$110 million is borrowed by the Federal Government and they say they are paying 3.5 percent, and they discount it at 8.32, do they take the difference between the 3.5 percent and the 8.32, and do they keep that themselves?

Mr. WIDNALL. It is sold under par—it is sold at——

The CHAIRMAN. Mr. Widnall, we would like the secretary to get your answers.

Mr. WIDNALL. This was negotiated with a brokerage firm. The testimony before us was that they had confidence in this particular firm, and they felt that with the feel for the market at the present time, this was probably going to be the best that they could do in the sale of those——

Mr. O'NEILL. What I have reference to here is this. They take various loans and lump them together. Take X company that has one of the loans that they have discounted. What do they pay? An increase in the mortgage percentage that they have gotten from Small Business?

Mr. WIDNALL. No.

Mr. O'NEILL. They pay exactly the same as they paid before?

Mr. WIDNALL. That is right.

Mr. O'NEILL. Then, at the top, the Government loses?

Mr. WIDNALL. The Government takes a loss.

Mr. O'NEILL. So the first amount money the man keeps paying in goes to——

Mr. WIDNALL. To the buyer.

Mr. O'NEILL. That is what I mean.

Mr. WIDNALL. That is right.

Mr. PEPPER. Mr. Chairman, may I ask a question?

Mr. YOUNG. Mr. Chairman, I have a question.

Mr. DELANEY. I thought I still had the floor.

The CHAIRMAN. I will get to everybody in due course, if you will let us proceed in an orderly way.

Mr. Delaney?

Mr. DELANEY. I just had one more question.

This \$8 million, this is an appropriation of \$8 million, or \$9 million is it not, without authorization? When they sell at a discount? The Federal Government has to make up this \$8 or \$9 million?

Mr. WIDNALL. That is what it amounts to.

Mr. PATMAN. Participation certificates are not sold at a discount; they are sold at par. They just pay more interest.

Mr. DELANEY. Now, there is no doubletalk that is going to satisfy us on this. If they take \$100 million, if they have \$100 million in assets and they sell that for \$91-point-something, and the Government——

Mr. PATMAN. I agree with you, the interest rate was extortionate. It should never have been granted. That brokerage fee of one-quarter of 1 percent was also extortionate. It should never have been granted. This bill will stop it.

Mr. DELANEY. You are talking about the brokerage fee. I am talking about the right to sell at discount.

Mr. WIDNALL. Mr. Delaney, there is not a word in the bill about either discount or brokerage fees. If you will look through it, you will find that to be true.

Mr. DELANEY. In the case that we spoke of, there is a loss there of some \$8 or \$9 million.

Mr. WIDNALL. Which is suffered by the Government.

Mr. DELANEY. And the U.S. Government suffers it. The head of that department has the right to negotiate; is that so?

Mr. WIDNALL. That is true.

Mr. DELANEY. Now, your committee, has it done anything about this, investigated it, to find out why the Government—

Mr. WIDNALL. We started to go into what had been done through the Small Business Administration in their last sale of assets. That was \$110 million involved. We started raising questions about it at the point where we first discovered that they disposed of about \$60 to \$80 million worth of assets. In our hearings, we criticized what had taken place—this was true but both Mr. Patman and I felt it was outrageous; I think you will find it on the record—and asked them to hold up any further sale of any assets. This they declined to do, because they said they had a contract to sell the \$110 million in assets.

To the best of my knowledge, no such contract was ever produced. They had a verbal agreement, I understand, with this one brokerage concern.

We never actually finished on S. 2499. It was abandoned at one point because it was felt this other bill would do the job if it were properly drawn.

Then, on the same day we got this out, unexpectedly the chairman brought up the other bill and asked for a vote on it in executive hearing. We had no hearings on it. We did not understand what the whole thing was about.

Mr. DELANEY. What the Small Business Administration is permitted to do, can other agencies do the same thing?

Mr. WIDNALL. They can.

Mr. DELANEY. While this is probably an unfair question, how much money is out at loan?

Mr. WIDNALL. About \$33 billion.

Mr. DELANEY. To be disposed of in the same manner?

Mr. WIDNALL. That is right.

Mr. DELANEY. That is all I want to know.

The CHAIRMAN. Mr. Martin, do you have any questions?

Mr. MARTIN of Nebraska. No questions.

The CHAIRMAN. Do you have any, Judge?

Mr. TRIMBLE. No.

The CHAIRMAN. Mr. Latta, do you have any questions?

Mr. LATTA. Yes, Mr. Chairman.

I would like to pursue this matter Mr. Delaney is bringing up here because Mr. Patman says that under this proposal, you could not do this.

Mr. PATMAN. Under the new proposal they have adopted.

Mr. LATTA. Well, actually you could do it, only one agency would be doing it, as I understand it, rather than all of them. You would be consolidating all these agencies into one, and only one agency would be doing it.

But we would not be correcting the situation that has been brought up by Mr. Delaney.

Mr. PATMAN. Yes, sir; I think it would. May I make a suggestion?

Mr. LATTA. That is not clear to me. Maybe it is clear to the other members.

Mr. PATMAN. May I try to clarify it?

Do not forget the Appropriations Committee. When all these securities are pooled, before they can sell participations in that pool, they have to get the approval of the Appropriations Committee. The Appropriations Committee will have the power to make restrictions and limitations on their contracts, even provide the interest rates and other things. That provides quite a substantial deterrent to doing anything wrong.

Mr. YOUNG. Will the gentleman yield on that?

Mr. LATTA. I will be happy to yield but I would like to pursue that.

Mr. YOUNG. It is on that point.

Mr. LATTA. Let's take this case of \$110 million at a discount rate of 8.5 percent. If FNMA makes a recommendation that that is what they are going to do, do you think the Appropriations Committee would overrule them?

Mr. PATMAN. Certainly, if they were wrong.

Mr. LATTA. How would they know they were wrong?

Mr. PATMAN. They would have overruled the SBA if they had power to do it. This bill gives Congress the power to do it. The SBA, like 99 other agencies, is unrestricted and unrestrained under existing law. They can go their separate ways. That is wrong.

Mr. LATTA. Under existing law, and coming back to this case once again—it is a case that we can sink our teeth into, it is not a hypothetical case—does the Government guarantee repayment to the Wall Street firm that bought these securities?

Mr. PATMAN. The agency issues its guarantees, furthermore, FNMA has the power to draw from the Treasury directly. That makes the securities more marketable and will reduce the interest rates on participation certificates.

You see, if we had had this, we would not have had to pay 6 percent on a Government obligation. I think that is scandalous. I agree with Mr. Widnall. He and I both agreed on that. It was terrible.

You see, SBA sought more money. They first contacted a number of brokers over the Nation at 5.5 percent. The response was unanimously, we will not take it for 5.5. Then, instead of asking how many would take at $5\frac{3}{4}$, they went and made a deal with Salomon Bros. & Hutzler directly and exclusively; giving them exclusive authority to sell at $5\frac{3}{4}$ percent, plus one-quarter of 1 percent brokerage, which made

it a 6-percent U.S. obligation—the first time in history, I think. That is what Mr. Widnall objected to; that is what I object to.

We are trying to correct it. We want to remove the possibility of each agency acting independently which results in higher interest rates. Instead of that we want to place agency obligations in a pool, that is an effective pool, that has gained a reputation that the market respects; in which event interest rates will be much lower.

This bill will save millions of dollars a year if we do it that way. It will prevent these scandalous things from happening—as in the case of the sale of \$110 million by SBA.

Mr. LATTA. I want to address a question to Mr. Widnall.

Mr. WIDNALL. May I just address myself to that?

There is nothing in the bill to say what the chairman has just said. This is something that bothers me. I would just like to reiterate what I said before; this attempts to set up a pooling of assets and sale of participation through FNMA. There is nothing in the bill that prevents any of these agencies from doing what they can do at the present time, and what SBA has just done.

Mr. LATTA. Now, then, you disagree with the chairman on that statement?

Mr. WIDNALL. Very definitely. And I would also like to point out that sales through FNMA, there are just four firms that sort of rotate in being the top one on all of the sales of the assets that have been going through FNMA. This is \$525 million in participation certificates, \$300 million—

The CHAIRMAN. Mr. Widnall, for the record, would you name those four bond firms that control the FNMA sales?

Mr. WIDNALL. Salomon Bros. & Hutzler, the First Boston Corp., Morgan Guaranty Trust Co. of New York, and Merrill, Lynch, Pierce, Fenner, and Smith.

The CHAIRMAN. What was the last one?

Mr. WIDNALL. Merrill, Lynch, Pierce, Fenner, and Smith.

The CHAIRMAN. Had you finished, Mr. Latta?

Mr. LATTA. No; I have not.

Getting back to the question I asked Mr. Patman, I would like to have your answer. I am trying to clear up in my own mind the situation. As I understand it, under this bill, you do not fully “sell” these securities. But the Federal Government will guarantee the payment; is that correct?

Mr. WIDNALL. Indirectly; not directly.

Mr. LATTA. Well, they will guarantee payment.

Mr. WIDNALL. The agency guarantees payment.

Mr. LATTA. Right. Through the agency. The Federal Government, through the agency, guarantees payment.

This situation of \$110 million that has been discussed, in that case will the Federal Government guarantee payment?

Mr. WIDNALL. Yes; through the agency.

Mr. LATTA. Well, they are still doing it. If they are guaranteeing it through the agency, they are still guaranteeing it.

Mr. WIDNALL. There is no direct Government guarantee. It is effective to the extent of the agency's drawing power with the Government.

Mr. YOUNG. The SBA does not have that authority, but FNMA does have it. There is a big difference there.

FNMA has the authority and SBA does not have the authority. That is the difference in drawing on the Treasury of the United States.

Let us be factual about this thing.

Mr. LATTI. Would that be true?

The CHAIRMAN. I wonder if we cannot clarify that situation, if I may make a statement, Mr. Widnall?

Mr. WIDNALL. Let me just read from the prospectus for the sale of \$410 million participation certificates in the Government Mortgage Liquidation Trust, Federal National Mortgage Association, Trustee:

Timely payment of principal of, and interest on, the participation certificates is guaranteed by the Federal National Mortgage Association, a corporate instrumentality of the United States (see letter of the Secretary of the Treasury appearing later in this prospectus regarding availability of funds for such guarantee.) The participation certificates are not obligations of and are not guaranteed by the United States.

This is set up in the prospectus of the sales by Federal National Mortgage Association.

The CHAIRMAN. Now, may I try to clarify? That statement, I understand, is put in there so as to put these securities in a class that makes them subject to taxation by the State authorities. Is that right? And that accounts for some of this difference?

Mr. WIDNALL. That is right.

Mr. PATMAN. Mr. Chairman, may I make a suggestion?

The CHAIRMAN. No; you have made a lot of them, Mr. Patman.

Mr. PATMAN. But Mr. Widnall made a good suggestion and I want to agree with him.

The CHAIRMAN. I want to ask a question and I want to direct my question to the witness, Mr. Widnall, when I can get his attention.

Mr. WIDNALL. Yes, sir.

The CHAIRMAN. The whole history of this situation relative to the guarantees is as follows, and if I am wrong, will you correct me when I get through with my statement?

Under the setup of the Housing Authority which is the FNMA, it was provided originally that we should do it by what is known as back-door spending. There was a provision put in the law that FNMA, now Housing, and nobody else, should have the right, specifically provided, to go to the Treasury and get the money without direct appropriation for the purposes set up in that bill, to care for the purposes.

That is the way it was financed.

I am right so far, am I not?

Mr. WIDNALL. You are absolutely correct.

The CHAIRMAN. Now, the agency, under that broad language, has construed that to mean, and I am not saying that it is not a feasible and proper construction, that when they have losses, they can go to the Federal Treasury and get a check for the money to pay those losses.

Mr. WIDNALL. Correct.

The CHAIRMAN. Of all these agencies that are involved in this bill as written, FNMA is the only one that has that authority to draw the money directly from the Treasury to pay the losses.

Mr. WIDNALL. The unlimited draw on the Treasury.

The CHAIRMAN. Yes.

Mr. WIDNALL. That is right, to pay losses.

The CHAIRMAN. Yes. They can take a check down and say we want so many millions or billions to pay losses, and the Treasury, under the act that Congress passed—not the bureaucrats; they did not pass this one; Congress did it—pays; that is the only agency that today has that power. Am I right?

Mr. WIDNALL. That is correct.

The CHAIRMAN. Now, under this bill, they are all thrown into a hodgepodge for these certificates that are going to be issued. And the bill has a provision in there that puts all of these other outside agencies in the same situation with the FNMA, so that all of them will then have that same privilege of having their debts guaranteed in the same way that FNMA does, so that all of them can go directly to the Treasury.

Now, is that a correct statement or not?

Mr. WIDNALL. That is what it amounts to; yes.

The CHAIRMAN. Mr. Patman, is that a correct statement?

Mr. PATMAN. Yes; I think it is.

The CHAIRMAN. That is all I want to know.

Mr. PATMAN. Wait just a minute, Judge. There is some explanation due there.

You see, that would be——

The CHAIRMAN. I was not asking for any explanation. I just wanted to know what the situation is.

Mr. PATMAN. It is very vital. If the Chairman does not want it, of course——

The CHAIRMAN. I will not stop the gentleman from making his explanation.

Mr. PATMAN. The explanation is that this bill will stop these separate agencies from doing it on their own. The agencies will have to make sales of obligations through FNMA.

Mr. Widnall suggested a moment ago that the agencies can still make sales directly. If they can, I want to stop it, because the intent of this is to stop them and require that they only go through FNMA, where the interest rate will be low.

I believe the language is there, Mr. Widnall, but if not I am for appropriate language that will stop it. They should have to go through FNMA only. This is to save interest rates.

The CHAIRMAN. Well, I am not taking a position on it one way or the other, but I think it ought to be clarified so we would know just what the situation is.

Mr. PATMAN. There is one other thing about that that you must not overlook. They have to go through the Appropriations Committee, and if a subsidy is required, the Appropriations Committee has to agree to that. They have to agree to the terms and conditions of these sales, these participation sales.

The CHAIRMAN. Let us pursue that a moment. Under the bill, when FNMA gets to the Appropriations Committee, it has to go to the Appropriations Committee before it forms the pool?

Mr. PATMAN. No; before they sell the participating certificates.

The CHAIRMAN. Well, of course before they sell them.

Mr. PATMAN. Yes, sir.

The CHAIRMAN. Because it also has to go before it makes any terms about selling.

Mr. PATMAN. There would be no point there, Judge. The only point is they are selling the participating certificates. Before they can sell them, they have to get the approval of the Appropriations Committee.

Say we have a pool of assets here. We want to sell participations in these. The Appropriations Committee can say, "Well, we do not agree with your terms, your interest rate is too high; you are paying brokerage when you should not." Or they can impose any similar conditions or restrictions. If there is a subsidy involved, they have to approve that.

The CHAIRMAN. In other words, Appropriations would have control over the whole situation?

Mr. PATMAN. Absolutely. They would have complete control.

And that is what the American Bankers Association said.

The CHAIRMAN. And I am sure that is what you intend.

As I said yesterday, the prospect of profits is very persuasive to bankers, and I know because I have been one.

I understand what you are trying to do, which may be all right. But you do not do it in your bill.

Mr. PATMAN. If we do not, we will amend it.

I will agree to what Mr. Widnall can write in there.

The CHAIRMAN. Well, now, that is a pretty good agreement, Mr. Widnall. Will you go along with that?

Mr. WIDNALL. If some other changes are made, Mr. Chairman.

The CHAIRMAN. Mr. Bolling?

Mr. BOLLING. On that specific point—I do not want to interrupt the chairman's line of approach. But on that specific point, I would like to get some sort of line of consensus from the two gentlemen at the end of the table, perhaps with the help of a third, as to how many amendments have now been proposed and accepted.

Mr. PATMAN. One accepted and one proposed.

Mr. BOLLING. Are they both the same?

Mr. PATMAN. No; they are different. I mean they are separate as far as I am concerned. The first is the one prepared by the Treasury.

Mr. WIDNALL. That one has not been accepted by me.

Mr. PATMAN. It has not been accepted by Mr. Widnall. Neither has it been rejected.

Mr. BOLLING. In other words, there is agreement that there need to be amendments but there is some confusion as to what and where; especially to where?

Mr. PATMAN. Well, the majority is agreed.

Mr. BOLLING. Thank you.

Mr. SISK. Would the chairman yield at this moment to pursue this question?

The CHAIRMAN. Yes.

Mr. SISK. How much time was held in hearings on this bill in the Banking and Currency Committee?

Mr. PATMAN. Well, there are two bills. They are related. The same facts are necessarily present on each bill. One of them we had

several days' hearings on. We had every person testify who asked for the privilege of testifying; every one.

Then the second bill, we did not have extensive hearings. We only had two witnesses, the Director of the Budget and the Under Secretary of the Treasury, Mr. Barr, for the reason that we had plowed that ground once before; exactly the same ground, the same problems involved.

Now, the majority of the committee, by a vote of 22 to 3, voted to not have any more testimony. But the bill was urgent and needed and we voted the bill out.

Mr. SISK. Well, Mr. Chairman, does not the gentleman agree though, that in the light of what has been going on here for the last couple of days, that this bill would be better off to go back to your committee for further hearings? It seems to me and is admitted by you and the ranking minority member, that there very definitely should be further hearings.

Would the gentlemen agree with me on that?

Mr. PATMAN. No; I would not agree on that.

It would be just a rehash of the same thing. If the Rules Committee would act on it, I would appreciate it very much. Speaking for a majority of 22 members out of 33, we would like to have that done.

Mr. WIDNALL. Mr. Chairman, might I speak to that?

The CHAIRMAN. Now, if I may get back to my question about what authority and power the Appropriations Committee has over the formation of these pools. Here is the language of the bill, and it is in just one sentence, and a very brief sentence:

Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation act.

Now, what does that mean?

Mr. PATMAN. That means the Appropriations Committee would have to pass on it and put it in the law.

The CHAIRMAN. Before the pool could form?

Mr. YOUNG. Yes, before.

Mr. PATMAN. They have to pass on it before anything is sold—anything is sold. And they can put limitations on it. They can refuse it. They have to approve it, the Appropriations Committee has to. Otherwise, it cannot be done.

The CHAIRMAN. You mean by that that the Congress has to agree?

Mr. PATMAN. Yes, sir; the Appropriations Committee recommends it. And that telegram was rather plain on that, from Mr. Walker of the American Bankers Association. This is what sold them on it.

Mr. WIDNALL. Mr. Chairman, Mr. Walker never testified before the committee as a witness.

The CHAIRMAN. As I recall it, what he said was, "We have no objection." Of course, they do not have any objection if they are going to get all these discounts. I would not either.

Mr. WIDNALL. I would like to add one thing, too, in connection with the question asked by Mr. Sisk. These two bills, the Senate bill and the second bill—we did have witnesses on the Senate bill. This just had to do with selling the assets of the Small Business Administration. There were people who wanted to be heard on the big bill. It is not true that we heard them in connection with this bill, and they

very definitely should be heard, the farm organizations particularly. I know of other groups that would like to be heard.

They did not know this bill was coming up. The bill itself went into the hopper one day and we had hearings on it for 3 hours the next day and voted it out of committee. They did not even know it was being considered by the committee.

The CHAIRMAN. I have communications from the Farmers Union and the National Grange and I have a great deal of confidence in their knowledge about farming, but I do not have as much about their knowledge of finances because I find it a pretty complicated thing.

Mr. WIDNALL. That is true, Mr. Chairman. They were very disturbed about what was going to happen to the financing of farm mortgages and also the interest rates that are involved and how it would affect those that they represented.

Mr. MADDEN. Mr. Chairman, I understood Congressman Patman to say several times that this discount racket is remedied in this bill. But I would like to have Mr. Patman, if he could, show where it is corrected.

Mr. PATMAN. It is intended to stop this, and I believe the language is in the bill to do that. However, if it is not, we will put it in.

That is what I said, but I would let Mr. Widnall write the language.

Mr. MADDEN. Well, it is not in there.

Mr. PATMAN. Well, I think it is.

Mr. MADDEN. If you would just kind of give me a clue where it is I will try to see what leads you to think it is in the bill.

Mr. PATMAN. Well, if the Appropriations Committee cannot control it for the Congress, I do not know who can. They have to go through the Appropriations Committee before they get to the House to get it approved. If that does not correct it, I do not know what in the world would.

Mr. MADDEN. Let me ask this, just to clear up my own apprehension. On this discount, protecting these obligations on financing housing, when we drive along and see a lot of subdivisions erected in Chicago and New York and all over the Nation, square miles and square miles and square miles of them, sometimes occupied and sometimes not. Sometimes they are built with poor construction and maybe in 2 or 3 years, they develop into slums.

The builder, the contractor, the subdivider—has no concern. If the people move out and fail in their payments, why the Government guarantees him. Is that not true?

Mr. PATMAN. Yes; FHA has to approve the construction you know. They look at this very carefully in my section.

Mr. MADDEN. Well, in my section they do not look at it very carefully.

Mr. PATMAN. Of course there are exceptions in all cases.

Mr. MADDEN. It has been the biggest bonanza and national disgrace, what these builders have done to racketeer on the Government with this guarantee. They have thrown up shacks and everything else and the Government has to stand for it.

I think your committee ought to get into that, because that racket is still going on.

Mr. PATMAN. And evidence that you want to present will certainly get consideration.

Mr. MADDEN. All you have to do is to go out to any city in the country and you will get plenty of evidence.

Mr. PATMAN. Well, we have plenty to do here without doing that.

Mr. MADDEN. We might get a special appropriation for the Rules Committee and we will appoint a subcommittee to investigate that.

The CHAIRMAN. I will appoint you Chairman.

Mr. MADDEN. That is all the questions I have to ask.

Mr. PATMAN. Judge, this bill, I think, is important. The administration feels it is urgent.

The CHAIRMAN. Mr. Bolling wishes to ask a question.

Mr. BOLLING. I am just interested in the question of the urgency. I am well aware of what you might call the fire that has been put behind this bill. But I happen to know, and I am sure my distinguished chairman of the Joint Economic Committee, as well as of the Banking and Currency Committee, knows also, as does the gentleman from New Jersey, Mr. Widnall, that the outline of this program was first contained in a message from the President on the 24th of January, I believe, in his economic message. The urgency developed only in a 24-hour period from the day that the bill was sent up from somewhere—on the 20th of April to the 21st of April, when my distinguished friend, the gentleman from Texas, Mr. Patman, held a hearing.

I am aware of the urgency of the matter. As a matter of fact, the Joint Economic Committee had something to say, both the majority and minority had quite a lot to say about the subject of participation.

I refer the gentleman to that report of his committee.

A majority report, which I believe was unanimous as far as the majority is concerned, raised very serious questions about the economic impact of this approach.

Now, I cannot comprehend, frankly, how it could be that we would have hearings on a bill so extensive and so vague without calling as witnesses those who buy the participations.

The CHAIRMAN. Those who did what?

Mr. BOLLING. Who buy the participations. There is a record furnished by the Federal National Mortgage Association as to who has been buying what percent of participations up to this date. And they include, of course, the commercial banks, the insurance companies, the savings and loans, and a variety of groups, including individual trust funds.

I had the privilege of serving on the great Committee on Banking and Currency, for some time. I happen to think this is a very fundamental, very important piece of legislation. And the people who are involved have never been heard, except for the Government witnesses.

And I am just curious as to why it suddenly got so urgent in late April.

That is the question.

Mr. PATMAN. May I answer it, Mr. Chairman?

The CHAIRMAN. Well, Mr. Widnall happens to be the witness.

But I reckon it is all right. You go ahead. We have been very informal about it.

I think that is all right, but we thought we had finished with you the other day.

Mr. PATMAN. This question is 21 years old. We have discussed it every year for 21 years. Why should we rehash everything all at one time?

So far as the Joint Economic Committee is concerned, I am well aware of the fact that we did discuss this in session, but the principal part of our discussion was as to the use of funds, and who would be allowed to participate in the purchase of these participation certificates. We put a provision in the Joint Economic Committee report stating that consideration should be given to permitting pension funds and similar trust funds to be used in buying these participation certificates. So that was more of a recommendation than it was a direct statement against it.

Mr. BOLLING. I refer the gentleman to the full language.

Mr. PATMAN. I am acquainted with the full language, and I now the point of what the gentleman says.

The CHAIRMAN. Senator Pepper has been trying to say something.

Mr. YOUNG. I have, too. I want to interpose a mild protest. It has bounced back and forth around the table, and I think the only way we are going to get in here is to ask somebody to yield.

I want to ask for some more confirmation. The question has arisen several times as to how the procedures under this bill would improve the procedures that were followed when SBA sold their securities directly on the market. Well, as a layman approaching this one, I can see two things that are quite important under this bill that should improve that situation. No. 1 is that FNMA is named as the fiscal agent of the United States to handle this business for all agencies that are named and, unlike the other agencies, FNMA does enjoy a privilege of getting the backing, the fiscal backing of the U.S. Government to meet its obligations that would be incurred under this operation. That is one.

The second important aspect of this bill, as I see it, is that you are naming a fiscal agent that is separate and apart from the agency that needs the money. Now, it is one thing when SBA went after the securities on the market, SBA was hurting for cash and hurting badly. It is sort of like the fellow who takes his watch to the pawnbroker. He is in pretty tough shape or he would not be there to start with. SBA was in pretty much that shape.

FNMA is the fiscal agent and in a stronger position. In addition, FNMA would not be as apt to sell these securities at just any offer. Is that right?

Mr. PATMAN. That is right. The interest rate would be lower. You put your finger right on it.

You know, when SBA offered those securities, the market said, "We do not know anything about these securities, we do not know how much of a guarantee is behind this, and we do not want to buy them. Therefore, we are not going to buy them at 5.5 percent." That is the cause of the first turndown, I will say to the gentleman.

Mr. YOUNG. Let me ask you this question, if you can answer it. What is the going interest rate of these securities which the Government owns? Would 5 or 5.5 percent be about the going interest rate?

Mr. PATMAN. Well, the current market or yield is about that. However, the interest rate that we are getting on them is much lower than that. Some of the college housing is down to 3 percent. But if you

sell the obligation; that is, if you make a security marketable, you have to adopt the current rate, whatever it is.

Mr. YOUNG. You do not have an average figure, then, of what—

Mr. PATMAN. I would say 5.25 to 5.5.

Mr. YOUNG. Then you have to take that 5.25 off this 6 percent to start with?

Mr. PATMAN. Yes.

Mr. YOUNG. Then you can take the one-quarter brokerage fee off, because FNMA is the main broker for the U.S. Government?

Mr. PATMAN. That is right.

Mr. YOUNG. All right. So actually, these figures sound appalling, and I agree that they are startling when they are put out in bulk, in total amounts. But you take a piece of paper down to the local banker and rediscount it, and he is going to get a pretty good piece of it himself.

Mr. WIDNALL. Would the gentleman yield?

Mr. YOUNG. Yes.

The CHAIRMAN. Mr. Pepper would like to get a word in.

Mr. WIDNALL. Excuse me, Mr. Chairman. I had asked him to yield to me, and he yielded to me.

Mr. YOUNG. Certainly.

Mr. WIDNALL. On page 8 of the bill, line 19, it says:

"The association *may* be named and *may* act as"—this is page 8, line 19, H.R. 14544.

The CHAIRMAN. Where are you?

Mr. SMITH. It does not say anything about that in my bill.

Mr. PATMAN. He has a different bill.

Mr. WIDNALL. Excuse me, it is page 3, line 19:

"The association *may* be named and *may* act as trustee of any such trusts"—this bill does not say the association; namely, FNMA *shall* be named and *shall* act as trustee. It says "*may* be named and *may* act."

Mr. O'NEILL. What do you mean by that?

Mr. WIDNALL. They still do not have to be named, under this bill.

Mr. PATMAN. I think they should have, and I will agree to any amendment you write.

Mr. PEPPER. Mr. Chairman, if you will just grant me a minute.

The CHAIRMAN. Mr. Pepper.

Mr. PEPPER. I would like to ask the able gentleman if the first step in the transfer of the securities from, let us say, SBA to FNMA does not have to be approved in an appropriation act passed by the Congress of the United States? Now, as a basis for that, I direct the attention of the committee and the witness to page 6 of the bill. The able chairman read a part of that a while ago:

"Beneficial interests or participations shall not be issued"—now, I take that to mean that securities from SBA, held by SBA, shall not be transferred to FNMA—"shall not be issued for the account of any trustor"—the trustor in this case would be the SBA—

in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation act. Any such authorization shall remain available until used.

That is the first thing. I am asking is it not a fact that SBA has no authority to transfer its securities to FNMA as a basis for these par-

ticipation certificates until first that authority is cleared up through an appropriation act of Congress. Is that right?

MR. WIDNALL. FNMA or any other trustee.

MR. PEPPER. No; I am asking you is not that language prohibitory on any transfer from SBA of its securities to FNMA unless the transfer is authorized by an appropriation act? Is that not what the language says?

MR. WIDNALL. I just said to FNMA or any other trustee.

MR. PEPPER. No; it says beneficial interests or participations shall not be issued. Now, this bill, that language is talking about the scheme set up in this bill. Now, let me direct the witness' attention to line 22 of page 6. I will tell you how these participations would be good and why the situation protested by the gentleman from New Jersey will not be possible:

Whenever the issuance of an aggregate principal amount is authorized pursuant to paragraph (4) of this subsection—

That is the paragraph (4) that I just read up there—when it is authorized in an appropriation act—

such an authorization in an appropriation Act shall establish on the books of the Treasury as appropriations such sums as may be necessary from time to time to enable the trustor—

That is, the SBA in this case—

to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instruments.

In other words, these securities are going to be good because before they are ever transferred from SBA to the FNMA, an appropriation act shall specifically authorize it, and that act shall be considered by the Treasury as an appropriation of credit, to the credit of the SBA to enable them to pay any deficit between the yield that the security transferred might bring and the amount of the debt payment required under the participation certificate. So it would be a margin of interest, if anything, in overall debentures.

One other thing. Page 5 says "when any trustor"—that is, in this case, SBA—

guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities—

That he pay any difference from what the security yield and the debt requirements under the participation certificates—

under such guarantee, he is authorized to fulfill such guarantee by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

The last one is on page 3. It says:

Subject to the limitations provided in paragraph (4) of this subsection, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the "trustor," is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall—

Shall—

guarantee to the trustee timely payment thereof:

So this money is appropriated by the Congress of the United States to make up any deficit between the yield of the securities and the amount of the debt service requirements of the participation certificates. So the buyer has a good security, because the money has already been appropriated if there is a deficiency between what the security yield in interest, for example, and its payment required under the participation certificate. That is the reason that it is good machinery to save money for the Government, because the purchaser is not taking any chance at all.

Thank you very much.

Mr. YOUNG. That is well done.

Mr. DELANEY. I think you have cleared up some of the points. Those were the very questions that we were asking.

The CHAIRMAN. Gentlemen, there is a vote on a motion to recommit going on now. We will have to recess. We have some business up here that has to be attended to, and I would like the committee to come right back, if you will. We need an executive session in the first place.

Mr. PATMAN. Will it be a continuation of this, Judge?

The CHAIRMAN. Yes, some continuation; I do not know how much. Come back in 20 minutes, please.

(Short recess.)

The CHAIRMAN. Mr. Widnall, if you don't mind being delayed, the committee had decided they would like to hear Mr. Barr, the Under Secretary of the Treasury, and he is here.

STATEMENT OF JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY

The CHAIRMAN. Mr. Barr, we will be glad to hear any observations you have to make.

Mr. BARR. Yes, Mr. Chairman. I can understand the perplexity of this committee because I have spent about 45 days on this legislation. The reason for its complexity is the fact that since 1917 the United States has been embarked on a series of Federal credit programs. It started in agriculture with Federal credit bills. It moved from agriculture into the Federal—I think the next one—they built up a whole series of credit programs in agriculture—came with the mortgage situation, the insurance of the Federal Housing Administration. Then we moved all along the line to the Small Business Administration.

We kept moving and now there are loans made for college housing, academic facilities, for a whole host of programs.

There are 100 programs in this country, roughly 100—programs that involve loans to different sectors of the economy.

Now, the issue that is before this Government is this: Whether we are going to continue to raise the money to make these loans by taxes or by borrowing from the Treasury. By holding these loans, we are going to have a bank, not a government. Today the Federal Government holds \$33 billion of direct loans.

If this bill is passed, next year this total should drop to about \$31 billion. If it is not passed, the total will go up to about \$39 billion. That includes fiscal years 1966 and 1967.

It would not be hard for me to imagine that within 2 years the total will go over \$50 billion, and within a decade, over \$100 billion.

What we in the Treasury are trying to do is to reverse this procedure. The United States has two credit lines that have always been recognized by the Congress. One is the general credit of the country which we use for Government operations, for our expenditures, for war, for peace, and for the purposes of Government.

The other distinction, the Congress has made has been money raised for specialized lending purposes, to farmers, to home buyers, colleges, elementary schools, small business, the whole gamut of Federal programs.

We say in the specialized lending programs that are made essentially to subjects that are close to the private sector, that have something to do with the private economy, that the Government should not keep its tax money, or the money it borrows through the Treasury, tied up in these loans if we can sell them. That is basically what we are doing in this legislation.

This legislation says to FNMA, to FHA, to the Veterans' Administration, to the Farm Home Administration, to Small Business Administration, to Export-Import Bank, I don't think I have forgotten anyone, the direct loans you make you can bundle up, transfer them to FNMA, who will act as a trustee. FNMA then can sell participations in these loans in the private sector.

That is in essence what this bill is going to do. Some of the objections to it are simple and understandable. These participations will carry a higher rate than Treasury bonds. That is true. The reason, one of the big reasons they will carry a higher rate than Treasury bonds is that Treasury bonds are not taxable by the States. These obligations are taxable by every State. So, consequently, there will be a heavier tax burden to the person buying this participation than the person buying the Treasury security.

Over the past 2 years our average experience, I won't predict what will happen in the future, but our experience in the past 2 years has been that normally these participations will carry a yield about a quarter of a percent to three-eighths of a percent higher than the Treasury obligations.

In March of this year Treasury bonds were selling for roughly 5 percent. The last FNMA issue went off at 5.33, roughly three-eighths of a percent higher. Prior to that time the spread had been closer.

I want to make it clear that this is slightly more expensive than borrowing through the Treasury but the alternative of borrowing through the Treasury is that we are going to make the loan and we are going to hold it and we are going to be in the position of putting our Government in the banking business, and this is a Government, not a bank. That is the point I make.

Now, as to the question of whether or not these are guaranteed; Treasury obligations carry the full faith and credit of the United States; it is the only obligation this country issues that carries full faith and credit. There is a long congressional history that only Treasury notes for all purposes of Government, for all people, will carry the full faith and credit of this Government as an entity.

On the other side are the specialized lending programs. They do not carry the full faith and credit of the United States, so how are they guaranteed? They are guaranteed in two manners. Under this legislation they will be guaranteed by an appropriation act of the Congress of the United States. In the final analysis, nobody but you gentlemen can obligate the United States. Treasury can't. The President can't. This country can only be obligated by an appropriation act of the Congress of the United States. And that is precisely what you are doing with these special participation certificates.

There is a legal distinction, of course, and the legal distinction accomplishes one purpose and that is to make these obligations taxable by the States.

Those are the main issues that I see. I have had conversations with several members and they objected to the general language that was originally in the bill. I think the objection was well taken. The bill was written generally, so that it would provide for new credit programs that come along. We can come to the Congress if new credit programs come along and ask that they be included. The amendment that we have accepted, and in conversations with the minority they have accepted, and in the Senate it has been accepted by the majority and the minority, is that we will list specifically the agencies that can pool their assets and sell them off via this route.

Congressional control is maintained in the authorizing substantive legislation, and in addition, it is increased by the control that the Appropriations Committee will exercise when it approves each sale of every asset and also approves an appropriation to cover the interest and principal to meet these assets as they are sold.

I will be glad to answer any questions. That is what we are trying to do. I am trying to get the Government out of the banking business.

The CHAIRMAN. Well, who wants to ask questions? I will go down the line. Mr. Madden, do you have any questions?

Mr. MADDEN. No questions.

The CHAIRMAN. Do you have any questions?

Mr. ANDERSON. No, sir.

The CHAIRMAN. Do you?

Mr. DELANEY. Yes. Some of these were sold at a discount. Who decides what discount?

Mr. BARR. Mr. Delaney, I think you are referring to the sale of the SBA debentures.

Mr. DELANEY. That is right.

Mr. BARR. And this is a perfect example of why we are asking for this legislation.

Let me give you the history of that transaction. It is not one in which I take any pride. SBA ran out of money early this year because of a disaster in New Orleans, Hurricane Betsy.

Mr. DELANEY. If they run out of money, isn't it their duty to come to Congress and ask for emergency legislation, for appropriations?

Mr. BARR. Perhaps you are right, sir. I will not dispute this point. They ran out of money. They pooled—they had a pool of debentures, loans that they had made to SBIC's. They decided to pool these debentures and try to sell them off into the private markets. The markets were very, very tight at that time. They made one attempt

to sell them at $5\frac{1}{4}$. No one would buy. This is a cumbersome certificate. It is hard to transfer. If you bought one, you couldn't sell it. You would have to hold it.

They tried at $5\frac{1}{2}$. They couldn't sell. They finally got them sold at $5\frac{3}{4}$, and I want the record to show the Treasury approved it. I approved it myself.

Mr. DELANEY. That is one-quarter percent commission.

Mr. BARR. No, sir. Not one-quarter percent of commission. Total yield of 5.78; three-tenths of a point.

Mr. DELANEY. That is not the testimony we had.

Mr. BARR. Well, I'm sorry, Mr. Delaney; 5.78 was the yield.

Mr. DELANEY. All right.

Mr. BARR. So that transaction was a sale into the market of a cumbersome, unwieldy certificate that nobody could sell, for which there was no market. At the same time, FNMA was selling its participations in the market at a yield of 5.33, but they issued a certificate that could be bought and sold, could be traded. It could be widely dispersed through the whole economy. That is the distinction between selling a direct asset, Mr. Delaney, and selling a participation in a pool of assets that carries the guarantee of the appropriation process, can be readily traded throughout the United States. On that basis, you could say that deal cost \$500,000, the SBICD's.

Mr. DELANEY. Well, the difference there of 0.44—

Mr. BARR. It is a difference between 5.33 and 5.78, which figures out roughly to half of 1 percent on \$100 million, which is \$500,000.

Now, if we had sold them through FNMA—we didn't have the authority to sell them through FNMA—we could have saved a half million dollars.

Now, as to the responsibility for the sale of the SBIC certificates, I take that responsibility because I was the highest official in this Government with whom the deal was completed. The Secretary was absent at that time. I was Acting Secretary of the Treasury.

Mr. DELANEY. Well, there are other questions here. I don't want to go into the—I can't understand the statements of some of the people representing the Treasury, that they made in New York. They don't want prosperity or anything else. They are saying there is too much profit or other things. One of the officials made that statement the other day.

Mr. BARR. I don't think the Treasury has been making speeches except on savings bonds.

Mr. DELANEY. Well—

The CHAIRMAN. Well, you had several questions. Would you clear them up now?

Mr. BARR. I would like for the committee, if I could, to understand the bill the way we drafted it. I would rather lose the legislation than try to flimflam the Congress on a \$5 billion piece of legislation. I will say that for the record. I mean it.

Mr. DELANEY. Now, what is the spread between the present rate of interest and the rate of interest that is current? I mean, how much of a deficit will the Government have to make up?

Mr. BARR. Next year, Mr. Delaney, if the Congress gives the authority—

Mr. DELANEY. On this particular—

Mr. BARR. Yes, sir.

Mr. DELANEY (continuing). Special, specialized——

Mr. BARR. All right. That is a very good question. Next year, if you give us this authority, we will sell off \$4.7 billion in direct loans. If you do not give us this authority, we will have to raise the money by borrowing through the Treasury. So the cost to the Government is the difference between what it would cost us to borrow through the Treasury, or you can raise taxes—those are the three alternatives. But let's say we borrow through the Treasury. I mentioned if you assumed that there is one-quarter to three-eighths of 1 percent spread——

Mr. DELANEY. It is more than that.

Mr. BARR. No, sir; it is not.

Mr. DELANEY. Because some of these—wait a minute.

Mr. BARR. Excuse me.

Mr. DELANEY. Some of these only bear 2 and 3 percent interest.

Mr. BARR. Mr. Delaney, the Congress took that cost when they put the cost on it. We are paying that cost.

Mr. DELANEY. Then we are guaranteed now to whoever takes them over, say 5.78.

Mr. BARR. No, sir; they will not go that high. Let me point this out. Mr. Delaney, the Congress authorized a subsidized loan program. We have to get this money one of two ways at the moment—borrowing from the public or raising the money from the taxpayer. If we raise the money from the taxpayer, and the rate in the money market that we are paying right now is 5 percent—every dollar we raise from the taxpayer is worth 5 percent, would you agree, sir?

Mr. DELANEY. If that is the current rate.

Mr. BARR. Yes, sir. All right. We will agree to that. All right. Now, the substantive loans programs that are going at 2 and 3 percent——

Mr. DELANEY. They are already in there for 3 percent.

Mr. BARR. That is right. You are right. Now, the cost of the Government is this. We raise the money through the Government, I will admit through the Treasury. We can raise it a quarter to three-eighths of a point lower than selling these assets. If you sell at 4.7 next year and you assume this one-quarter of 1 percent spread, the cost to the Government next year for raising what I would call this instant money is between \$10 and \$14 million.

Now, I want the record to show that. That is the cost of raising instant money, getting out of this portfolio, borrowing this way rather than borrowing through the Treasury.

Mr. DELANEY. Don't you think a drastic move such as this should have been gone into in some detail in hearings, and the committee have the benefit of all viewpoints, those that are on one side and on the other? I understand that there were two witnesses before the committee and they reported this out.

Now, they say it is old hat, we have had testimony along these lines on some other bills, but none on this direct bill that is before us.

Mr. BARR. Mr. Delaney, before the people——

Mr. DELANEY. Why this rush? You don't give them a chance. It is hurry, hurry, hurry, and then we have got to pass it through immediately the same day.

Mr. BARR. Mr. Delaney, before the people retired me from this part of the Government, I resented any executive department comment on the way the Congress acted, so if you will forgive me, sir, I will not comment on the way Congress acts.

I might say, Mr. Delaney——

Mr. DELANEY. Now, that you are on our side, you are still advocating the passage of this bill.

Mr. BARR. Mr. Delaney, I will only make this comment. The Senate did call, did open up the public hearings, and only two witnesses asked to appear. That was the Farmers Union and——

Mr. DELANEY. We could have opened up and satisfied everybody in 1 day.

Mr. BARR. Yes, sir. Mr. Delaney, I stand on my previous statement, though. I will not criticize or approve the way the Congress acts. That is their business.

If I could get elected again, maybe I would have a comment on what you have to say. I would——

Mr. DELANEY. When these things are sold at a discount, they are sold to meet the current rate of interest. Who is it that decides? Who actually decides under the present law to sell it?

Mr. BARR. Mr. Delaney, let me get one point straight. Under the Participation Sales Act they are not sold at a discount. They are sold at par value but they are sold at a yield. The market decides what interest rate they will buy these for. At the moment, it is very, very high. We have very high and very tight money markets.

Mr. DELANEY. You say they are not sold at a discount. Isn't it, in effect, the same thing?

Mr. BARR. All right. It is the same thing, but the only question is, discount from what? On the SBIC things, that was planned.

Mr. DELANEY. 90 cents on the dollar.

Mr. BARR. Wait a minute. On the SBIC we made those loans 100 cents on the dollar at 5 percent. When we sold them, they were discounted to 91. And the rate was then $5\frac{3}{4}$. The only difference—it is a technical—you are right. There was only a technical distinction, Mr. Delaney. We will be selling an issue and the market will be telling us what price.

Mr. DELANEY. Where do we get this additional money to make up the difference? Somebody takes a loss in there and it is the Government, isn't it?

Mr. BARR. No, sir. Mr. Delaney, as I say, all of these loans that we are selling off have been made, right?

Mr. DELANEY. You are not making any from now on.

Mr. BARR. Oh, sure. They will continue to make them from now on in. They will continue to make 2-percent, 3-percent, 4-percent loans from now on unless the law is changed and unless the authorizing and appropriating committees say, stop all these loans.

Mr. DELANEY. Now, the yield on these loans——

Mr. BARR. I have got to raise the money on them.

Mr. DELANEY. Yes. Where do you raise that money, the additional funds? Where does this come from?

Mr. BARR. The additional money comes from the Appropriations Committee.

Mr. DELANEY. The Government, in other words.

Mr. BARR. Right.

Mr. DELANEY. In other words, the Government pays the difference.

Mr. BARR. That is right. Fourteen billion next year, is the cost we are talking about.

Mr. DELANEY. You and I don't know what the rate will be, what the rate next year will be.

Mr. BARR. Mr. Delaney, if the market tightens up much more, it is not going to be easy to sell these participation certificates. We can't borrow on the Treasury at times any more. All we can do is raise taxes if we are going to meet the funds of this country. Unless you want us—if the market continues to tighten to a rate of 6, 6½ percent, I think the Secretary of the Treasury would have only one choice: to come to Congress and say that we cannot meet these high rates. We are not going to pay them. We have got to pay our bills. There is only one way to pay our bills. We will have to raise taxes.

If that is the decision—now, the Congress could say no. You have the final decision down here, Mr. Delaney.

If you say, "No, go ahead and pay these rates, borrow the money that we need to pay our bills," that is what we will do. But if you say, "No, we don't want you to pay these high rates," then the only choice we have—we have no other chance to raise the money except by raising taxes. That is the only way we can get them.

Mr. MARTIN. Are you inferring that the credit rating of the United States has come to such a low point that it is going to be difficult to finance these operations?

Mr. BARR. No, sir; I am not saying that. The securities of the United States are the best in the world. They carry the lowest yield in the whole world, but even so, even though we are getting the best price of anyone in the world, any government, any business, any institution, yesterday our securities were sold at 5 percent.

I am raising the question, I am trying to answer Mr. Delaney's question, what we would do, even though we get the best deal in the world, what we would do if the rates kept continuing moving up, 6, 6½ percent. I think that is what Mr. Delaney was trying to ask, whether we would continue to go into the market even through Treasury and borrow at these very high rates.

I think it is a real question that the Secretary of the Treasury has got to face. All I can say is that we have to pay these bills.

This country has never defaulted, has never been late on an obligation since 1789. I don't know of any other government, except possibly Sweden, that can make this claim. The Congress and the executive, we have never defaulted or been late on an obligation. That is a remarkable record.

That is one reason I want to take the time here today to show you what we are doing. I don't want any questions that we are in any sense impairing this magnificent record that we have had since 1789. I would rather resign from the job, and I hope the record will say, than pass any reflection on the credit rating of this country.

In spite of the debates, and I was on the other side, I used to yell at the Republican administration that they were ruining the credit of the country, the Democrats will do the same, and back and forth. In spite of that, since 1789, our credit has been unimpeachable.

Mr. DELANEY. Of course, these are guaranteed by the United States.

Mr. BARR. Absolutely.

Mr. DELANEY. FNMA, while they don't have the exemption, has guaranteed them and the United States stands behind the commitment of FNMA.

Mr. BARR. That is correct. That is one——

Mr. DELANEY. So, in effect, they can say they are guaranteed.

Mr. BARR. That is one guarantee. There are two guarantees.

Mr. DELANEY. I want to——

Mr. BARR. There are two guarantees behind these. One is the guarantee of FNMA, which exists today. They can come to the Treasury and get the money they need to meet the interest and principal payments on any obligations they issue. That is one guarantee.

But the other guarantee that we are proposing under this act is that every agency, when they sell these certificates to FNMA, has to go to an Appropriations Committee of the Congress so there are two guarantees. The existing guarantee of FNMA and the guarantee of an appropriations act of Congress.

Mr. DELANEY. Now, these rates fluctuate from time to time. It is very difficult to find out just how much money would be necessary for appropriations. By the time legislation goes through it may be out of—we wouldn't have sufficient funds in any event, isn't that so?

Mr. BARR. That is correct.

Mr. DELANEY. What will we do in that event?

Mr. BARR. The legislation provides that, when the Appropriations Committee authorizes this sale, they create on the books of the Treasury an indefinite appropriation.

Mr. DELANEY. Indefinite?

Mr. BARR. Yes, sir. For these particular securities, not other securities.

Let us say you sell a million dollars' worth of securities. The Appropriations Committee would say, "Yes, you can sell these securities and here is the indefinite appropriation to meet the interest and principal." The same thing we have in the Treasury.

Mr. ANDERSON. Will you yield at that point, Mr. Delaney?

Mr. DELANEY. Yes.

Mr. ANDERSON. In other words, the Appropriations Committee makes the initial decision——

Mr. BARR. That is correct.

Mr. ANDERSON (continuing). Approving the sale of participations. But, once they have done that, then they really, in effect, lose the control, don't they, because——

Mr. BARR. Yes.

Mr. ANDERSON (continuing). If the market goes up on its rates and more is going to be required to service these obligations, the agency isn't going to come back to the Appropriations Committee and have to get permission for that, are they?

Mr. BARR. No.

Mr. ANDERSON. The credit is there on the books.

Mr. DELANEY. Indefinitely.

Mr. BARR. They put the appropriation and authorization in at the same time. No one would buy the securities, sir, if they did not.

Mr. ANDERSON. Thank you.

The CHAIRMAN. That raises one of the points that was raised here before we adjourned, and that was, at what point does the Appropriations Committee, and then the Congress, approve these pools?

Mr. BARR. They approve it before any action can be taken, any action at all, Judge. In other words, Mr. Chairman, let's say—let's take an example. College Housing under the budget wants to sell \$100 million of its securities for next year. It would go to the Appropriations Committee in its normal appropriation act, and say, "Look, we have budgeted for fiscal year 1967, \$820 million of sales for the year." The Appropriations Committee would say, "Yes, you can sell them," and when you sell them, if they say yes, they create this appropriation on the books of the Treasury to meet interest and principal payments.

As you pointed out, you can't set it precisely. It has to be fairly indefinite. I would think as the Appropriation—and then the College Housing Administration can sell these securities.

Now, I would think that the Appropriations Committee in their control over this, if it wanted to set limits, they could. If they wanted to say that if the spread goes over a half percent between Treasury's and these obligations, you can't sell them, if they wanted to say that—

The CHAIRMAN. Now, does that occur before Small Business, for instance, transfers—that is the initial beginning of this.

Mr. BARR. Yes, sir; that is correct.

The CHAIRMAN. And nothing can be done until that goes through in an appropriation act.

Mr. BARR. That is correct, Mr. Chairman.

The CHAIRMAN. And, after it goes through, what happens then is no business of the Congress.

Mr. BARR. That is correct, Mr. Chairman, on that particular block of issues. That of \$820 million.

Now, next year, if they—if they, during the year, decided they wanted to sell more, they would have to come back to the Appropriations Committee for a supplemental, or in the following year, if they wanted to sell another half billion, they would have to come back and get authority for each block of issues and the appropriation goes only to the block of issues that the Appropriations Committee approves.

The CHAIRMAN. Yes. Well, you speak of scrambling these eggs by putting various securities of various different agencies into one pool. That is contemplated.

Mr. BARR. Yes, sir.

The CHAIRMAN. And each one of those would have to go through this procedure with the Congress, through the Appropriations Committee.

Mr. BARR. Yes, sir.

The CHAIRMAN. Before the pool could be formed.

Mr. BARR. That is correct.

The CHAIRMAN. So, before they make up the pool, they have got to determine what securities and whose securities they are going to transfer into the pool—

Mr. BARR. That is correct.

The CHAIRMAN (continuing). Under the jurisdiction of the FNMA. Mr. BARR. That is correct.

The CHAIRMAN. And, as an incident of that, this happens, and we all, I think, want to be frank about it, and I think everybody has been very frank about it, but we want to know——

Mr. BARR. Yes, sir.

The CHAIRMAN (continuing). Just what the thing does.

Now, the FNMA, under this backdoor arrangement, when it was set up, goes direct to the Treasury and has a blank check.

Mr. BARR. That is correct.

The CHAIRMAN. But Small Business doesn't have any blank check.

Mr. BARR. They have a blank check, sir, to the Congress, from an appropriation act.

The CHAIRMAN. They don't have any blank check now.

Mr. BARR. No, sir; they do not. Under this legislation, you are correct.

The CHAIRMAN. The result of this is to enlarge the blank check operation to all of these agencies that come into it.

Mr. BARR. No, sir.

The CHAIRMAN. All right, then. Explain that.

Mr. BARR. No, sir, Mr. Chairman. The blank check of FNMA is indefinite. It continues year after year. Anything that is put into it can be guaranteed. The interest and principal payments are guaranteed year after year until the Congress takes away that authority, because they can come to the Treasury.

The CHAIRMAN. Yes.

Mr. BARR. But now, with SBA, as you mentioned, Mr. Chairman, they have—if they ask for authority to sell a half billion or \$500 million of the securities, they don't get a blank check from the Appropriations Committee. They get authority to sell \$500 million of securities and to guarantee \$500 million of securities. No more. Just that \$500 million.

FNMA can guarantee anything. Up to \$3,450 million.

The CHAIRMAN. But the net result is the same. They do get a guarantee.

Mr. BARR. They do get a guarantee but FNMA is a real unlimited guarantee. The Appropriations Committee would give them the right to guarantee only \$500 million. I think there is a distinct difference, Mr. Chairman.

The CHAIRMAN. Well, before anything is done, they have got to get under this blank check operation.

Mr. BARR. I don't like the term, "blank check." I would rather use the words—before anything is done, they have to get an appropriation from the Congress of the United States, Mr. Chairman, which gives them an appropriation, as you say, that is indefinite because we can't fix the amount on each——

The CHAIRMAN. Each block they want to sell.

Mr. BARR. That is right. But it is limited to one block of securities, not a whole roomful of them. It is limited to one particular block.

The CHAIRMAN. Yes. Well, I just wanted to get that straightened out.

Mr. BARR. That is a very good question, Mr. Chairman.

The CHAIRMAN. There was one other question that went around here this morning and that was, why—as a matter of fact, there were a number of other questions but I happen to remember this one.

When we were talking about this discount business, we were told that there was a sort of monopoly on the purchase of these bonds, and we wondered why they had to be confined to four bond houses rather than sold to the highest bidder, as other bonds are.

Mr. BARR. Mr. Chairman, there are several ways. Up until now, this has been a small operation of FNMA's and on the small operations, FNMA deals as any business would deal. They form a pool of investment bankers who underwrite the securities and then sell them to the public. That is one way of operating.

Another way you can operate is open them up to competitive bidding by everyone. We tried this in the Treasury. Sometimes it works well, sometimes it doesn't. But it does not have to be confined to four banking houses, and I don't think properly it should be.

The CHAIRMAN. Well, it is at present.

Mr. BARR. It has been, Mr. Chairman. It has been confined, as I remember, to four or five. I wouldn't know why it would have to be four or five. I would think it could be any number of 200. Any investment—any group of investment banking houses—or we could issue them the way the Treasury does, put them right out in the market. Anybody who holds them, you have got rights, come in and take them to your banks if there are enough of them out for that kind of market. Any impropriety—

The CHAIRMAN. In my discussion—and you and I have had several very frank discussions about it—

Mr. BARR. Yes.

The CHAIRMAN. I sort of got the impression that these four bond houses probably had more to do with writing this bill than the Banking and Currency Committee or the Treasury Department. How about that?

Mr. BARR. No, sir. We had a technical committee to help us with drafting this legislation. The people on the committee were representatives of the investment banking community, and this included Mr. Emil Pattberg, First Boston Corp.; Sidney Weinberg of Goldman Sachs. I don't know if either of them has participated in this.

The commercial banker was Mr. Dave M. Kennedy, who is chairman of the board of Continental Illinois in Chicago. I don't think he has ever been included.

It has just been handed to me. Here are some underwriters. I will go through the technical committee, however. It included Mr. Morris Crawford, chairman of the board of Bowery Savings Bank in New York, a mutual savings bank. It included from Daingerfield, Tex., a savings and loan—I should say Mr. Cameron McElroy of Marshall, Tex., and what is his occupation?

He is a contractor. That was the business side.

We had the savings and loan people—I can't remember who they were. And we had life insurance companies, Mr. James O'Leary, president of the New York Life Insurance Co., and we had a fire and casualty company. I am sorry, I do not have the names of all these people present. But the people we had on the advisory committee represented investment banking, commercial banking, savings and loans,

mutual savings banks, a life insurance company, fire and casualty company, and the general public.

The CHAIRMAN. Mr. Martin, do you have any questions?

Mr. MARTIN. No questions.

The CHAIRMAN. Judge Trimble, do you have any questions?

How about you, Mr. Quillen?

Mr. QUILLEN. Mr. Chairman, this bothers me. When you put these into a pool, this becomes effective and is sold at discount, which is a definite loss to the taxpayer or this Government—in other words, you say, if you sell this many next year, it is going to cost \$14 million.

Mr. BARR. Over borrowing through the Treasury, yes.

The CHAIRMAN. They are going to sell to the private investor at the current market, whatever it is.

Mr. BARR. That is right.

Mr. QUILLEN. The private investors, when they make an investment, there is a cost to that investor of putting it on the books and their yield is oftentimes the net yield—the net yield is much less than the current yield.

Mr. BARR. Yes, sir.

Mr. QUILLEN. So, therefore, when you sell these, it is going to be a bonanza to somebody when they buy it at the cost to the Government because they have no cost whatsoever of putting it on the books, and the Government maintains these agencies and the cost of putting the loan on the books, and the investment, yet it is sold at a current yield.

Mr. BARR. I'm sorry, sir. I don't follow that line of reasoning. I wonder if you would repeat it for me. Let's take——

Mr. QUILLEN. Take any bond.

Mr. BARR. Let's take the last issue of FNMA. It went off at 5.33. That is what the market paid for it. Now, can we go ahead from that——

Mr. QUILLEN. Take——

Mr. BARR. At the same time, the Treasury issues were selling at, roughly, 5 percent.

Mr. QUILLEN. Take the mortgage banker.

Mr. BARR. Yes, sir.

Mr. QUILLEN. He is in the business of making loans on real estate.

Mr. BARR. That is right.

Mr. QUILLEN. He makes a loan at a certain interest rate.

Mr. BARR. That is right.

Mr. QUILLEN. Which is the current yield.

Mr. BARR. Yes, sir.

Mr. QUILLEN. But, to put that loan on the books, it costs money to put it on the books.

Mr. BARR. That is right.

Mr. QUILLEN. What he does then——

Mr. BARR. A point and a half.

Mr. QUILLEN (continuing). He goes to FNMA and he buys the loan to yield a current yield and he has no cost of putting it on the books.

Mr. BARR. That is right, and you——

Mr. QUILLEN. To me it is a little bit mixed up. Maybe you can explain it.

Mr. BARR. There is normally, sir, a spread. If the United States is paying 5 percent for its obligations, normally there is a spread of

about 11½ percent between that and mortgages, first-class mortgages of 6½, to take care of the cost that you have mentioned, the cost of going out and making the loan and servicing the mortgage. That is normally the spread they talk about.

Sometimes the spreads are larger. They have been as high as 2 percent.

But the point I fail to see is that he will be able to buy—let us say you are a mutual savings bank. You will be able to buy—last year there were 30 million. The mutual savings banks could have bought a mortgage or they could have bought a Government security. There was no cost of putting—

Mr. QUILLEN. We are talking about mortgages.

Mr. BARR. That is right. If he had bought a mortgage, he would have had—if he had made a mortgage, he would have had to charge a higher rate, roughly, 11½ percent, to cover his costs.

Mr. QUILLEN. You mean the sale of these, then—the current yield is less than the interest rate that the private sector is charging?

Mr. BARR. Oh, yes. I think good mortgage papers, I will stand on the record—I haven't looked at it too closely—is 6½, something like that. It varies from part to part of the country.

Now, there has been the argument made, sir, that maybe this device will soak up money that should be used for buying houses. If we sold the mortgage directly, I think it could soak up that money because those mortgages would be bought by mutual savings bankers, by the savings and loans, but when we sell a participation, it is bought by State and local governments, by corporation pension funds, by personal trusts, by individuals, by investment banks—by commercial banks, by savings and loans, by everyone who has any money. Life insurance companies, anybody who has any money for that.

Mr. QUILLEN. In the report on page 24, the impact on home mortgage markets, this question is asked:

Why would any lender buy 5¾ percent FHA or GI mortgage and have to pay the cost of servicing such mortgage when he can buy FNMA participation and obtain a rate of 5½ percent?

Mr. BARR. I don't think he would. I don't think he would. I agree with you.

Now, the situation might change.

Mr. QUILLEN. In effect, isn't it putting the Government more into the business, rather than, as you say, taking the Government out of the business?

Mr. BARR. No, sir, because these—well, I agree with you, they are not buying these mortgages now, sir. What mortgage banker would buy a mortgage at 5¾ percent? I wouldn't know anybody, would you?

Mr. QUILLEN. Right now, no.

Mr. BARR. That is what I say. So they are not buying anything from FHA today, sir. That is the point I am making. And they wouldn't. So we are not competing. In a nonexistent situation—if they are not buying these mortgages, I don't see how we can compete in the market.

Mr. QUILLEN. What is the FHA interest rate?

Mr. BARR. Five and three-quarters percent, and they can't sell any of it. They can't—

Mr. QUILLEN. What is the discount rate under that?

Mr. BARR. The discount, I don't know. It fluctuates from part to part of the country. I think the effective rate most of them are going off at is around $6\frac{1}{2}$ percent.

Mr. QUILLEN. FHA isn't out of business.

Mr. BARR. No. They do sell at $5\frac{3}{4}$ and put a discount on them, so the effective rate is about $6\frac{1}{2}$ percent.

Mr. QUILLEN. I am not being critical.

Mr. BARR. No. I understand. I hope we can clear it up.

Mr. QUILLEN. It still bothers me. While I think it is putting FNMA and these other Government agencies into the lending business—

Mr. BARR. No.

Mr. QUILLEN. Because you are giving them out to sell the mortgage.

Mr. BARR. No, sir.

Mr. QUILLEN. When you say, FHA's are—

Mr. BARR. They are selling, they are getting $6\frac{1}{2}$ percent. That mutual savings banker, when he has the choice between buying a FNMA certificate at 5.33 or buying what you call a $5\frac{3}{4}$ yield on an FHA, that isn't a $5\frac{3}{4}$ yield. He is getting $6\frac{1}{2}$ percent because he is getting his points. So you have to compare $6\frac{1}{2}$ with 5.33.

Mr. QUILLEN. Won't he also get his points if he sells through FNMA?

Mr. BARR. No.

Mr. QUILLEN. How about this issue you authorized with SBA?

Mr. BARR. That was a direct sale. He did get points. Those were discounts. We are selling a sale of full-participation certificates. They go off at 5.33. That is the effective yield to us and to him. When he buys an FHA mortgage, FHA insures that mortgage at $5\frac{3}{4}$ but the lender says, look, I don't want $5\frac{3}{4}$ with rates as high as they are today, I want to charge points. With points, it gets up to around $6\frac{1}{2}$. So that is a comparison between $6\frac{1}{2}$ and 5.33.

Mr. QUILLEN. Do you agree with this points discount system?

Mr. BARR. I don't say it is a discount system. We are not discounting anything. We will sell—you will have a piece of paper which says this is a participation in a pool of mortgages that big and when you buy this piece of paper, you will say, OK, I look at the market, I will pay you an effective rate of 5.33. I don't say that is a discount. The paper has got a hundred.

Now, the loans that are in there, the loans that are in there, maybe, have been made at—some of the loans in the pool might be 3 percent, some might be 4 percent, some might be $5\frac{1}{2}$ percent, some might be all over the lot.

Mr. QUILLEN. Does this, then, give that agency more money to lend more money?

Mr. BARR. No, sir. Well, let me back up. Let's look at the congressional controls on this. They fall into two categories. There is category 1. We are talking about substantive legislation. There is category 1, which is limited by the Congress in the total amount of loans they can have outstanding.

In the case of FNMA, I believe that is \$3,450 million. In the case of Ex-Im, isn't that right, Mr. Fink? What is the total on FNMA?

Mr. FINK. It was a total, subject to whatever Congress might transfer to it and that makes it unlimited. Initially, it was——

Mr. BARR. I thought it was \$3.4 billion. Maybe I shall stand—briefly, I think there are two categories. One, of limitation in substance. One is a limitation Congress puts on some of these programs, the total amount of loans they can have outstanding. That is one category.

There is another category under which the Congress limits either through appropriation acts or substantive acts, the total amount of new loans that they can make each year. Now, those are substantive controls.

Mr. QUILLEN. What was the problem with SBA?

Mr. BARR. The problem with SBA——

Mr. QUILLEN. When you authorized the sale of those?

Mr. BARR. Those were sales of direct loans that we had the authority to do.

Mr. QUILLEN. You said they were out of money and needed money. Did they go directly back to SBA or Treasury?

Mr. BARR. They would have to have come back to Congress to get an emergency authorization fund. They didn't have any money.

Maybe I am getting this confused. I would defer to Mr. Fink or somebody else more knowledgeable. Mr. Nelson, or somebody else. I can get screwed up in this.

Mr. QUILLEN. I am a little confused because all I can see here is, if the answer is that these agencies have more money to lend, what we are doing is putting these agencies more in the lending business and the private sector is buying the mortgages at the current rate without any cost of investment.

Mr. BARR. No, sir. That is not the purpose at all. The purpose of this legislation, I want to say it and say it and say it, is to stop this continual process of building up a portfolio that gets larger and larger and larger in this country, of tying up taxpayers' funds and tying up the general credit line of the United States of America in specialized lending programs, when we could sell not the asset itself, but we can get our money back from that asset by selling these participations out in the private market.

The control of Congress is still there. The substantive control is not diminished.

Mr. QUILLEN. You are getting money back. Where does the money go?

Mr. BARR. It goes back into the programs.

Mr. QUILLEN. That is what I said. It goes back into the programs.

Mr. BARR. That is correct.

Mr. QUILLEN. To lend more money, to sell more mortgages.

Mr. BARR. No, sir; not necessarily, because you still have a substantive number.

Mr. QUILLEN. You don't have a——

Mr. BARR. I want to clear this point up.

The CHAIRMAN. Let's one talk at a time.

Mr. BARR. That is a very good point and I would like to clear the Congressman up on this point because, you see, as I say, there are substantive controls on all these programs by Banking and Currency Committees, one; Agriculture Committee is another. I think maybe——

I am not sure—I don't know who controls HEW and some of these other academic facility loans. I am not sure who does but there is a substantive control over all of these programs.

That is No. 1. And it goes, usually, to the facts, (a) how many loans can be outstanding; or (b) how many loans can you make in a year's time. That is one control.

When you sell these loans, they do come back into and they can be re-lent, but before the loan can be re-lent, that is true, in that event it means we don't have to raise the money from the Treasury, don't have to raise the money through taxes, and it can be re-lent, no question about that.

I want to make that clear. But before—and the Appropriations knows this and they know it before they ever give them the authority to do it. In effect, they are giving them authority to continue the program by selling the assets rather than raising the money through the Treasury or through the taxes.

Mr. QUILLEN. Well, that I understand.

Mr. BARR. Now, if the Congress feels that this Government is getting too far in the lending business, they can pull them back.

Mr. QUILLEN. That is the thing that concerns me because I think the private sector could do it as well, but you know, in the mortgage business, you have what you call cats and dogs papers.

Mr. BARR. Yes.

Mr. QUILLEN. And that is the determining factor as to the yield that paper brings.

Mr. BARR. Yes, sir.

Mr. QUILLEN. And perhaps that is one reason the SBA paper didn't bring as much as it should have.

Mr. BARR. Well, actually, the trouble is—the SBA paper still carried the guarantee of the United States. The trouble with the SBA paper was that you could not negotiate. If you bought one of them—

Mr. QUILLEN. I thought you explained a moment ago that there was a difference in the guarantee, that only the Treasury issue carried the full guarantee of the U.S. Government.

Mr. BARR. That is correct, but it does carry a guarantee of Congress.

Mr. QUILLEN. Yes; but you said it was nontransferable, that you would have to hold it.

Mr. BARR. That is right.

Mr. QUILLEN. That is the cat and dog.

Mr. BARR. That is the cat and dog.

Mr. QUILLEN. It may be a mistake in judgment in making the loans, but now how will that be corrected, if I might ask, with these agencies pooling these and going into FNMA? How will that particular discrepancy be corrected?

Mr. BARR. Well, I suppose if the agency makes a cat and dog loan, they can stick them in there. Different people have different descriptions of cat and dog loans. Sometimes in Treasury, we think some of these agricultural loans might fall in the cat and dog class, but the Agriculture Committee sure doesn't think so.

Mr. QUILLEN. I don't want to take the time of the committee any further but this does worry me, that it is a perpetual motion opera-

tion, and I don't believe the bill clearly demonstrates what you have in mind.

Mr. BARR. Well, that is—that was one of the things we looked at.

Mr. QUILLEN. Intent is one thing, but——

Mr. BARR. That is the reason that we put in the Appropriations Committee control over every one of these issues to be sold. Otherwise, we would be wide open to the charge that you are making, that this is a perpetual motion machine, but it is no perpetual machine when the Appropriations Committee has to say OK on every single issue before they can ever start up the machine.

Mr. QUILLEN. Not on a relending, unless it exceeds the authorization.

Mr. BARR. That is correct.

Mr. QUILLEN. But, now——

Mr. BARR. Now, they can only carry that one term and, then, when that is out, they have got to sell some more. And, when they do that, they have got to come back to the Appropriations.

Mr. QUILLEN. If FNMA gets into difficulty, they can go in the back door of Treasury.

Mr. BARR. They are the only ones that can, that is correct. The authority to lend more.

Mr. QUILLEN. Thank you.

The CHAIRMAN. Mr. Bolling?

Mr. BOLLING. As I have already told the gentleman, he is the most persuasive witness in support of the legislation that there is. He did say one set of things that I would like to pursue very briefly.

This has nothing to do with technicalities of the bill, and even the details of the bill, but aren't we really here making a policy choice which is very narrow? We are saying this is a better way to get the money that we have to have to pay our bills, than either Treasury borrowing or increasing taxes.

This is, in effect, a way of making that choice almost in advance because if we——

Mr. BARR. Yes, sir.

Mr. BOLLING (continuing). If we do this, if we go into participation sales, you can make a fairly strong argument that it will be unnecessary to go into the tax field unless the miscalculation is so great in the burden that is put on the monetary policy that you have to go back to taxes in order to relieve the burden on the monetary authority.

Now, would this generally—this relatively complicated thing—would this be generally accurate?

Mr. BARR. I am glad you brought this point out, Mr. Bolling. That is, I would generally accept your statement that this does offer an alternative to raising money through the Treasury or raising money through taxes. That is correct. I want to make it very clear, and I am speaking for the U.S. Treasury at this time, at the impact—we are not claiming that the impact of this legislation is either inflationary or deflationary. I believe it is slightly deflationary because it will enable us to move into the longer end of the market, but that is open to question.

So, this bill, if we have to raise taxes, if it becomes necessary to restrain demand, this bill, I want to make it very clear will have little or no impact on the decision as to whether or not to raise taxes. Is that——

Mr. BOLLING. This is responsive, but to pursue that, I notice with considerable amusement that Joe Martin, who has always been a great champion of the monetary authority, at least, is quoted today as saying there is about as much burden on the monetary authority as there can be and that we must now turn in the direction of a fiscal action, in other words, tax increase, that either Treasury borrowing or passage of this bill on participation sales is inevitably going to put, without regard to whether it is inflationary or deflationary, is inevitably going to put a greater burden on the monetary authority.

Mr. BARR. That is correct.

Mr. BOLLING. Regardless of whether the chunk is Treasury or participation, it is going to be that much more competition for that much more money.

Mr. BARR. That is correct.

Mr. BOLLING. OK. That is all I want to know.

Mr. BARR. I am glad you made that point.

The CHAIRMAN. Mr. Latta, do you have any questions?

Mr. LATTI. No. I think most of mine have been answered.

The CHAIRMAN. Any questions?

Mr. O'NEILL. Mr. Barr, on the SBA sale of \$110 million worth of their mortgages with the interest and discount, did that money go back into the revolving fund of the SBA?

Mr. BARR. May I ask for help on that? Where did that money go?

It went back into SBA; yes, sir.

Mr. O'NEILL. Then, it was used because of the fact that so much money had been used in the hurricane down in New Orleans.

Mr. BARR. That is correct.

Mr. O'NEILL. Now, under your bill here, the \$110 million of them, if it were to happen that your legislation were enacted, it would come under the tent of FNMA, and the money then would go back, as I understand it, to the General Treasury; is that right?

Mr. BARR. It would go back to the General Treasury in this sense, that all of the funds in the United States are held in one bank account, the general fund of the United States, but it would go back to the credit of the Small Business Administration on their books.

Mr. O'NEILL. So you do not delete the lending power to the Small Business Administration.

Mr. BARR. No, sir.

Is that correct?

Only the Congress can do that through substantive legislation.

Mr. O'NEILL. Let me ask you one other question. The information given us this morning on this \$110 million sale, I understand, the interest—it was discounted at 9.3. If such a sale, let us say, of the same \$110 million took place under FNMA, what would be the difference in the cost to the Government?

Mr. BARR. It would have been a half million dollars cheaper under FNMA, for that 1 year. In other words, Mr. O'Neill, it would—the cost figured out at 5.78 for the SBA transaction the way we ran it by selling the direct assets. FNMA sold at the same time at 5.33. So the difference is 45 basis points, or roughly, one-half of 1 percent on \$110 million. That is the advantage. It is rather dramatic.

Mr. O'NEILL. That is all, Mr. Chairman.

Mr. SISK. No questions.

Mr. YOUNG. No questions.

Mr. PEPPER. No questions.

The CHAIRMAN. There is just one thing.

Mr. BARR. Yes, sir.

The CHAIRMAN. There is one other thing that disturbs me a little, that I don't understand. The expression we used, "cats and dogs", in these notes, now you are going to take some from various and sundry agencies. You will get some cats from one and maybe some dogs from another, and maybe some elephants from another, and maybe some monkeys from another, and you will sell the whole caboodle as one package.

Mr. BARR. Yes, sir, Mr. Chairman.

Mr. CHAIRMAN. Now, how are you going to unscramble that money that comes from there and give the fellow that put in the elephants his share, and the cats his share, and the dogs his share, and the monkeys his share?

Mr. BARR. Mr. Chairman, if you will forgive me, I am not going to use the expression, "cats and dogs." Different parts of Congress say that some—some parts of Congress say a loan to colleges is the best loan you can make, and another will say to academics, and Agriculture says the farm loans are the best ones you can make. The home-builders say the loans you make in this area are the best you can make. Urban renewal—but then, everybody argues.

Let's say, we do take, let's say we put together a billion dollar pool. Two hundred million of it would come from Farm Home Administration. Two hundred million of it would come from FHA mortgages. Two hundred million of it would come from—I hope somebody will correct me, this is a very intricate operation—\$200 million from college housing, and \$200 million from academic facilities, and \$200 million for SBA.

Now, that would be the type pool and would be envisaged. I am not prepared to say which are the cats, which are the dogs, which are the elephants. We don't have to do it this way, Mr. Chairman. We could put together a pool composed of completely Small Business Administration. We could put together a pool composed strictly of college housing. We could put together a pool composed strictly of the Farm Home Administration.

The CHAIRMAN. Then, there would be no problem about who got—then, there would be no problem.

Now, I want to know how each one of these is going to get his share back.

Mr. BARR. All right.

The CHAIRMAN. His share of the purchase price of those bonds.

Mr. BARR. That billion-dollar pool will be sold off, Mr. Chairman. Farm Home Administration put in \$200 million, so it will get \$200 million out of the purchase that will be credited to its account on the books of the Treasury.

The CHAIRMAN. They are all put on the same basis, then.

Mr. BARR. Yes, sir.

The CHAIRMAN. Whether they are cats, dogs, elephants, or monkeys.

Mr. BARR. Yes, sir. And, as I say, different people have different opinions on which they are.

No, we don't have to do it this way. We don't have to commingle these assets. The investment community—this was unanimous from the mutual bankers, the savings and loan institutions, the investment bankers, the life insurance companies. The committee said we are going to get the best deal if we mingle them all together and have something in the pool for everyone.

Some people like farm loans, some people like college loans, some people like small business.

The CHAIRMAN. I still don't understand and I think you have got to understand before you begin doing it—how each one of those participants of securities is going to get back his fair proportion of what the whole pool together brings.

Some will be worth more than others in dollar value.

Mr. BARR. No, sir, Mr. Chairman. This billion-dollar pool, we went down the line of five different agencies, each putting in \$200 million. It makes no difference whether some of the loans are made at a 5-percent rate or some of the loans were made at a 3-percent rate. And they will all go together in the pool and the pool participation—participation in the pool will be sold—the last issue was 5.33. Now, each agency that put in \$200 million will get their share back.

The CHAIRMAN. What is their share?

Mr. BARR. Their share is what they put in.

The CHAIRMAN. But they put in—some of those might sell at par, others might sell individually at over par, and some might sell at a discount.

Mr. BARR. That is right.

The CHAIRMAN. Now, how is that all going to be taken into account and distributed among those to whom it is to be distributed?

Mr. BARR. Mr. Chairman, they will all get their pro rata share because it would be impossible to determine, in my opinion, how, if we sold—for instance, REA is out, but if you sold a 2-percent REA loan, I don't know what it would bring. If you sold a 3—

The CHAIRMAN. Does that mean the elephants and monkeys are going to get equal prices for the bonds?

Mr. BARR. Yes, sir. Well, it may—

The CHAIRMAN. Somebody is going to get stung on this.

Mr. BARR. No, sir. Mr. Chairman—

Mr. DELANEY. The Appropriations Committee makes up the difference.

Mr. BARR. That is correct. Mr. Delaney answered the question. The Appropriations Committee makes up the difference. If you made a 3-percent loan—

Mr. ANDERSON. How can you tell which agency—

Mr. BOLLING. No dogs, no cats, no monkeys.

Mr. BARR. There is no cat or dog when it carries the guarantee of the United States. Now, they are made at different rates, that is true.

The CHAIRMAN. Everybody will get back 100 percent of the face of their bonds.

Mr. BARR. That is right. And the difference between the 3-percent loan.

The CHAIRMAN. Whether it comes from the purchaser or the Treasury doesn't make any difference.

Mr. BARR. It all eventually comes from the credit of the United States.

Mr. MARTIN. Could I ask one question, Mr. Chairman? I passed up my chance before.

SBA, I believe, has authorization of \$525 million, I believe.

Mr. BARR. \$1.8 billion. I am informed it is \$1.8 billion.

Mr. MARTIN. All right. Let's say that they run out of money to loan, so they put up \$500 million in one of these pools.

Mr. BARR. Right.

Mr. MARTIN. And they sell their securities.

Mr. BARR. Right.

Mr. MARTIN. That \$500 million comes back in, comes back to the SBA, as I understand it, to be credited to them.

Mr. BARR. That is right.

Mr. MARTIN. So, they, in turn, could use that \$500 million.

Mr. BARR. If it is within the \$1.8 billion loan ceiling they have, that is right.

Mr. MARTIN. Yes; but they get their money back, and so they have the money they need.

Mr. BARR. That doesn't pull down their ceiling. In this particular case they have got \$1.8 billion in loans. Let's say they are up to their ceiling. They have made a \$1.8 billion loan and they sell a half billion dollars in securities. The mere fact they sell that half billion dollars, they can't use that money until their authorizing limit is raised to 2.3. They have to come back to Congress and get that approval.

Mr. MARTIN. \$500 million on hand, and you mean they couldn't loan it?

Mr. BARR. No, sir. They could not use it until they came back to the Congress in this particular instance. Now, this is not true in every instance but in this instance it is true.

Mr. MARTIN. We get a little difference of opinion.

Mr. BARR. The legislative history is clear, that Mr. Davis testified before the committee.

Mr. MARTIN. In this bill right here that we have before us—

Mr. BARR. You asked about a particular program, sir. Now, not all of them operate this way.

Mr. MARTIN. Well, here on page 4, line 11, of the bill it says:

The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust.

Mr. BARR. Mr. Davis and the SBA—you asked me about a specific agency and I want to make sure that this does not apply to all the other agencies. Mr. Davis said he does not accept this language and that the history is made because when the loan is sold, the guarantee—the mere fact that they have sold participations, the guarantee goes with it just the same as if we sell it. If he sold that loan directly, the guarantee goes with that loan. And he says the guarantee counts toward a billion of \$1.8 billion.

Mr. MARTIN. Doesn't this redefine it, the way this language is written in the bill?

Mr. BARR. No, sir. Not under the legislation. Let me check General Counsel. It does not—Mr. Englert tells me I am correct. He is

Deputy General Counsel of the Treasury. It does not give—under the legislation the language as written does not change the situation as I have described it.

Mr. MARTIN. What is your interpretation of the language here in the bill?

Mr. BARR. May I defer to General Counsel here on this language. I am not a lawyer, sir. What does this mean?

Mr. ENGLERT. All this says is that the effect of the sale should be the same as though they had sold it directly without putting it into the pool. Now, if they sell it directly, they have the money to re-lend it. That will be true when they get the money back from the pool but their authority to lend is limited by an overall amount. They cannot exceed that either with proceeds of direct sales or proceeds—

Mr. MARTIN. That is right. That is the point I was making. They get the money back in and what is to prohibit them from loaning it out again?

Mr. BARR. Because they are up to their ceiling. They are up to their limit.

Mr. SISK. What would be the advantage of selling it in the first place?

Mr. BARR. So we don't have to borrow from the Treasury or raise the taxes.

Mr. SISK. There would be no advantage to SBA?

Mr. BARR. No, sir. If they are up to their limit, there would be no advantage to SBA.

Mr. QUILLEN. Mr. Chairman—

The CHAIRMAN. Mr. Quillen would like to ask a question.

Mr. QUILLEN. Pursuing two things, under the question that my colleague from Nebraska asked, when this agency sells these securities, when they are sold, doesn't that automatically take out or eliminate or reduce its authorization to lend more money? In other words—

Mr. BARR. It does not with SBA. It does with college housing. It does not with FHA.

Mr. QUILLEN. FHA is not in this.

Mr. BARR. Farmers Home Administration, sir. It does not—you have to answer the question that there is no precise answer, sir. Now, let's see. With Farmers Home Administration they have an annual authorization to lend. So that would not give them any more right.

Mr. QUILLEN. But if it is sold, it reduces—

Mr. BARR. No, sir. Not with Farmers Home Administration. Is that correct?

Mr. ENGLERT. I am not certain about Farmers Home.

Mr. BARR. I just went through this with the Bureau of the Budget. With the Farmers Home Administration the fact that they have sold does not give them any more authority to lend. With college housing the fact that they sell does give them more money to lend.

Mr. QUILLEN. How about SBA?

Mr. BARR. SBA, it does not. Wait. There are two situations here. I think Mr. Fink is probably right.

Mr. QUILLEN. Selling gives them more money to lend. I mean, that is only logical.

Mr. BARR. It does not reduce their—the original loan is charged against the authorization and it stays charged against the authoriza-

tion as far as SBA is concerned no matter whether it is sold or participations sold.

Mr. QUILLEN. Is that in this bill?

Mr. BARR. Is that in this bill?

Mr. BOLLING. No. The reason they are saying it is they have a guarantee and the limit is on the guaranteed loan. And you have got to put guarantee together with loan.

Mr. BARR. The control here—may I get back again—the control here in this whole operation is in the appropriations for the process of the Congress of the United States. I know no better way to control it.

Mr. QUILLEN. I am sure your intent is there but the language of the bill doesn't say so.

Mr. BARR. No, sir; it does not. Let's say if you object to this procedure, if the Appropriations Committee objects, then they don't—before anything can start, they have to authorize it.

Mr. QUILLEN. One more thing. Getting back to the cats and dogs, since I started to use that phrase, they go into the pool and these loans are sold and you stated that the agency involved gets back full amounts of its securities. In other words, they put in \$200 million, they get \$200 million back.

Mr. BARR. That's right.

Mr. QUILLEN. The Appropriations Committee makes up the difference.

Mr. BARR. That is correct.

Mr. QUILLEN. We talked about everybody benefiting except the taxpayer.

Mr. BARR. Well, now, sir, when these—I want to tell you this. If you decide not to pass this legislation and to continue with all these loan forms this country is making, you have saddled the taxpayer with the cost the minute you make that loan. I am trying to get him to get out of these loans.

Mr. QUILLEN. So he can make more loans and be saddled again.

Mr. BARR. No, sir.

Mr. QUILLEN. That is the way I see it.

Mr. BARR. No, sir.

Mr. QUILLEN. I will be glad to talk to you privately.

Mr. BARR. This is the only way that you can get out of this.

Mr. QUILLEN. You are going to get in more than you get out.

Mr. BARR. No, sir.

Mr. ANDERSON. Mr. Barr, would you be willing to delete that language on page 4, lines 11 through 14, which is causing I think the distress that Mr. Quillen feels that this is, in effect, increasing the authorized ceilings of these agencies to make these loans? The sentence that reads:

The effect of both past and future sales of any issues of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust.

Mr. BARR. They are debating this subject in the Senate today. The Bureau of the Budget has looked at this very carefully and I am not sure. I can't give you any answer on this.

Mr. QUILLEN. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Patman, just a second before you go. We had some discussions here this morning. I don't know whether they have all been cleared up but there was some discussion about some other amendment or amendments that might relieve the situation, and I wondered if maybe Mr. Patman and Mr. Widnall and you could get together and discuss those and see. There is something about the place where your amendment should go.

Mr. BARR. We have accepted that.

The CHAIRMAN. Then there were one or two other things and Mr. Patman said that if it wasn't clear, he wanted to make it clear. Maybe a short conference between you sometime between now and the first of the week, between you two, might relieve some of the questions.

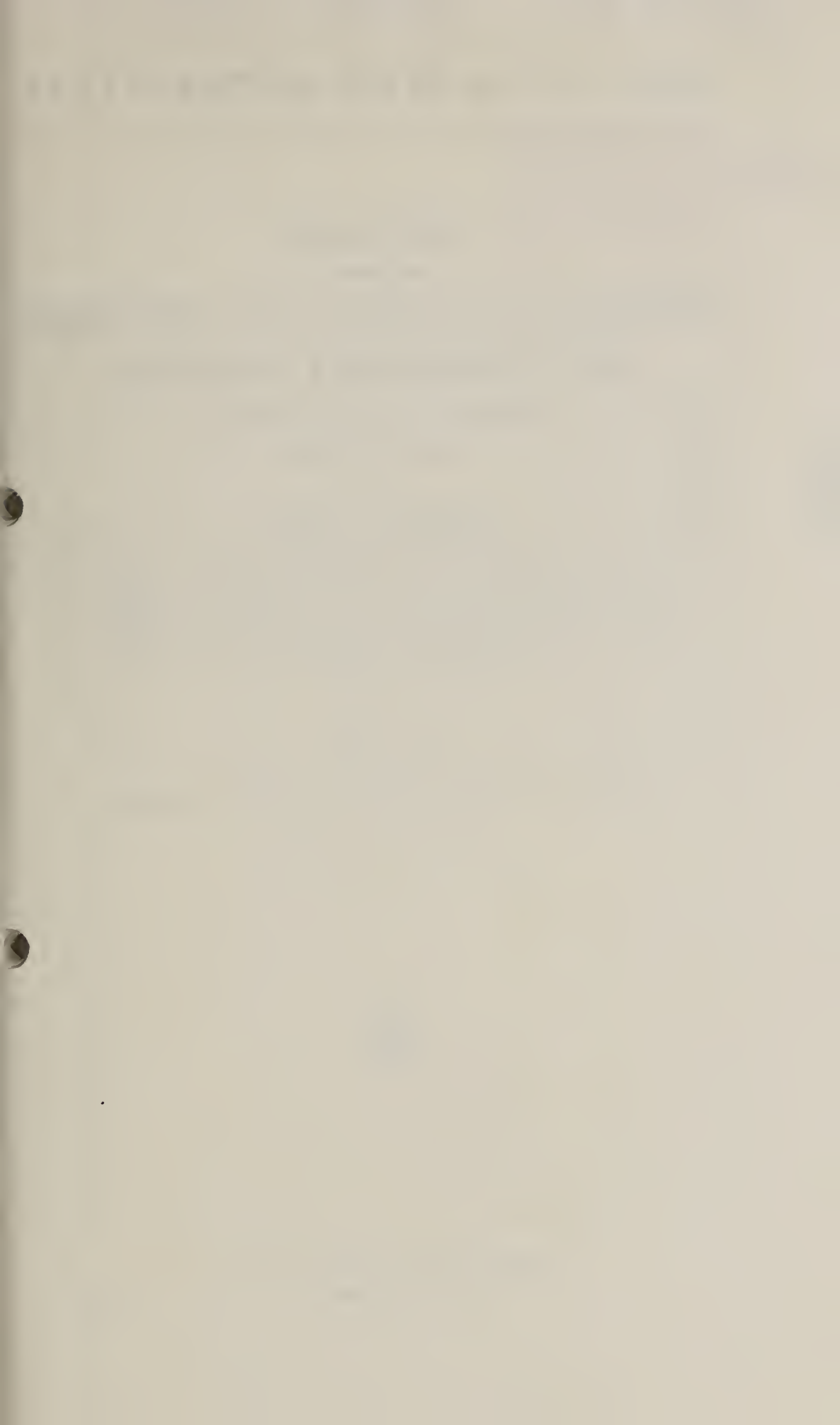
Thank you very much.

Mr. BARR. Mr. Chairman, may I thank you and the committee for the opportunity of trying to explain the most intricate legislation I have ever been involved in.

The CHAIRMAN. You have been a good witness.

Gentlemen, we will now go into executive session and we have another matter to take up.

(Whereupon, at 2:35 p.m., the committee moved into executive session.)



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HEARING
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS
SECOND SESSION
ON
H.R. 14544

A BILL TO PROMOTE PRIVATE FINANCING OF CREDIT
NEEDS AND TO PROVIDE FOR AN EFFICIENT AND
ORDERLY METHOD OF LIQUIDATING FINANCIAL
ASSETS HELD BY FEDERAL CREDIT AGENCIES, AND
FOR OTHER PURPOSES

APRIL 21, 1966

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PARTICIPATION SALES ACT OF 1966

THURSDAY, APRIL 21, 1966

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to notice, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Barrett, Reuss, Moorhead, Stephens, St Germain, Gonzalez, Minish, Weltner, Hanna, Gettys, Todd, Ottinger, McGrath, Hansen, Annunzio, Rees, Widnall, Fino, Halpern, Brock, Talcott, Clawson, Stanton, and Mize.

The CHAIRMAN. The committee will please come to order.

Today the Banking and Currency Committee begins hearings on H.R. 14544, a bill to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

(H.R. 14544; a communication from the President entitled "Private Financing of Credit;" and "President Proposes Asset Sales Legislation," Treasury Department release dated Apr. 20, 1966, follow:)

[H.R. 14544, 89th Cong., 1st sess.]

A BILL To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Participation Sales Act of 1966".

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

(1) by inserting "(1)" immediately following "(c)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking out the words "offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency" in the first sentence thereof and by inserting "and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations,' in which the United States or any executive department, agency,";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission."; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following: "(2) Notwithstanding any other provision of law, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the 'trustor', is authorized to set aside a part or all of any

obligations held by him and subject them to a trust or trusts and, incident thereto, may guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. Notwithstanding any other provision of law, the Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: *Provided*, That the trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(3) If any trustor shall guarantee to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(4) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that aggregate receipts from obligations subject to the related trust are or may become insufficient in amount to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors): *Provided*, That no such beneficial interests or participations shall be issued in relation to any obligations unless the trustee determines there is a reasonable probability there will not be an insufficiency as aforesaid, or unless the amounts issued are within aggregate principal amounts authorized in advance in appropriation Acts, and it shall be in order to include provisions authorizing such issuance in an appropriation Act. Whenever such an aggregate principal amount is so authorized, there shall be established on the books of the Treasury as indefinite appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations, and such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

SEC. 3. (a) Section 305(c) of the Federal National Mortgage Association Charter Act is amended by deleting "by \$450,000,000 on July 1, 1966,".

(b) Section 401(d) of the Housing Act of 1950 is amended by deleting "1968:" immediately preceding the first proviso and by substituting therefor "1965, and 1967 and 1968:".

SEC. 4. (a) Section 303(c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: "For the purpose of making payments into the fund established under section 305".

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

“REVOLVING LOAN FUND

“SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called “the fund”) which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts.

“(b) (1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

“(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury.”

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence “and (8)” and inserting in lieu thereof “(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)”; and by inserting in the fifth sentence after “title,” the following: “section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,”.

SEC. 6. Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

PRIVATE FINANCING OF CREDIT

COMMUNICATION FROM THE PRESIDENT OF THE UNITED STATES

LETTER OF TRANSMITTAL

THE WHITE HOUSE,
Washington, April 20, 1966.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: I have the honor to transmit the "Participation Sales Act of 1966." This important legislation is designed to forward our objective of substituting private for public credit.

For many years the Federal Government has carried on lending programs to finance essential activities which would not otherwise receive adequate financial support. Under these programs direct loans are made to help the farmer, the businessman, the home buyer, the veteran, the student, our colleges, and our schools. As of June 30, 1965, the volume of these Federal loans exceeded \$33 billion.

Desirable as these activities are, Federal lending neither can, nor should, shoulder the entire job.

Under our system of free enterprise it is far better for the Government to mobilize private capital to these ends; and it is far better for the Government to stimulate and supplement private lending rather than to substitute for it.

To do this, we sell Federal loans directly, or in some cases, sell "participations" in pools of loans, to private investors. The Government acts as both middleman and underwriter for the loans, assuring adequate and economical financing for desirable projects while at the same time attracting the maximum participation of private investors.

This substitution of private for public credit provides sound financing for worthwhile projects with a minimum of Federal participation.

In encouraging private participation in Federal credit programs, I am building on the outstanding work begun and carried forward by:

President Eisenhower's administration.

The 1958 Commission on Money and Credit, chaired by Frazar B. Wilde and of which Secretary of the Treasury Fowler and many other distinguished citizens were members.

President Kennedy's 1962 Committee on Federal Credit Programs, under the chairmanship of former Secretary of the Treasury Dillon.

The substitution of private for public credit has many advantages:

It makes more effective use of the taxpayers' dollar.

It offers the private investor an opportunity for sound investment and a fair return.

It benefits business and those of our citizens who are helped by the vital programs made possible both by Federal and private investment.

In the fiscal year we expect to replace a total of \$3.3 billion in public credit with private credit. In fiscal 1967, with the help of legislation such as the proposal I am submitting today, we believe that private

credit can be substituted for public credit, advantageously to all concerned, in the amount of approximately \$4.7 billion.

As private credit is introduced on an increasing scale, the need to coordinate the sales of Federal loans also increases. It would defeat the purpose of improving the operation of the credit market if loans offered under particular programs interfered with each other or with the orderly financing of the public debt through the sale of Treasury securities.

The Participation Sales Act of 1966 will help solve this problem in two important respects:

First, instead of the Government making a number of relatively small and uncoordinated offerings of loans in the market, the act provides for pooling many loans together and selling participations in the pool. The pooling of mortgages and loans and the sale of participations in the income and repayments from loans in the pool is not new. It has been used to advantage over the past several years by the Export-Import Bank, the Veterans' Administration, and the Federal National Mortgage Association.

Second, this legislation would extend the pool participation technique to other lending programs, including:

Farmers Home Administration.

Office of Education.

College housing.

Public facilities loans.

Small Business Administration.

The pool technique adopted by this legislation has a number of advantages:

It assures the Government the best possible return on the sales of financial assets.

It provides the investor with a widely accepted and highly desired asset.

It provides a means for attracting private participation in loans made with relatively low interest rates for special purposes.

It reaches sources of capital which would not be available for loans or mortgages offered individually, thus widening the reservoir of credit for vital projects.

The proposed legislation has two other major provisions.

1. Rather than have each of the agencies concerned conduct their own separate sales programs, the sale of participations would be centralized in a single agency—the Federal National Mortgage Association. This agency has already built up extensive experience with this technique in its mortgage pooling operations.

Individual agencies would continue to administer their credit programs, but the pooling of credits and sales of participations in the pools would be handled by the Federal National Mortgage Association. This centralization will greatly increase the efficiency of the sales operation and help coordinate this program with the Treasury's debt management operations.

2. In many cases the Congress has established Federal credit programs in which the interest rate charged to the borrower is below the market rate. The difference represents a net charge to the taxpayer. The act provides that, in all such cases, the Appropriations Committees of both Houses must authorize in advance the amounts of participations which could be sold against these assets. In this

way, the safeguards of the annual appropriations process can be applied to this aspect of the program.

The Participation Sales Act of 1966 will permit us to conserve our budget resources by substituting private for public credit while still meeting urgent credit needs in the most efficient and economical manner possible.

It will enable us to make the credit market stronger, more competitive, and better able to serve the needs of our growing economy.

But above all, the legislation will benefit millions of taxpayers and the many vital programs supported by Federal credit. The act will help us move this Nation forward and bring a better life to all the people.

I am enclosing a joint memorandum from the Secretary of the Treasury and the Director of the Bureau of the Budget which discusses in detail the major features of this legislation.

I urge speedy enactment of this legislation.

Sincerely,

LYNDON B. JOHNSON.

PROPOSED ACT

A BILL To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Participation Sales Act of 1966".

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

(1) by inserting "(1)" immediately following "(c)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking out the words "offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency" in the first sentence thereof and by inserting "and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations,' in which the United States or any executive department, agency,";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission."; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following:

"(2) Notwithstanding any other provision of law, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called in 'trustor', is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, may guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. Notwithstanding any other provision of law, the Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: *Provided:* That the trust instrument shall provide that

custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayments of such obligations. The effect of both past and future sales of any issues of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

“(3) If any trustor shall guarantee to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

“(4) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that aggregate receipts from obligations subject to the related trust are or may become insufficient in amount to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors): *Provided*, That no such beneficial interests or participations shall be issued in relation to any obligations unless the trustee determines there is a reasonable probability there will not be an insufficiency as aforesaid, or unless the amounts issued are within aggregate principal amounts authorized in advance in appropriation acts, and it shall be in order to include provisions authorizing such issuance in an appropriation act. Whenever such an aggregate principal amount is so authorized, there shall be established on the books of the Treasury as indefinite appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations, and such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument.”

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SEC. 4. (a) Section 303 (c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: "For the purpose of making payments into the fund established under section 305".

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called 'the fund') which shall be available to the Commissioner without fiscal-year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation acts.

"(b)(1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with the sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury."

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence "and (8)" and inserting in lieu thereof "(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)"; and by inserting in the fifth sentence after "title," the following: "section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,".

SEC. 6. Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

APRIL 19, 1966.

MEMORANDUM**MEMORANDUM FOR THE PRESIDENT**

This memorandum was prepared to provide you with background concerning the "Participation Sales Act of 1966." We recommend that you transmit the legislation to the Congress.

The proposed legislation is designed to implement your recommendation in the budget message relating to the substitution of private for public financing in various Federal credit programs. Specifically, the draft bill would provide for a coordinated program, through the Federal National Mortgage Association, of sales of participations in pools of financial assets held by various Federal agencies.

The basic purpose of the proposed legislation, as indicated, is to encourage the substitution of private for public credit in various major Federal credit programs. Given the desirability of drawing in greater private participation in the Federal credit programs, the sale of interests in pools of assets is the most satisfactory and economical means that has been devised to meet this end. The program of asset sales also facilitates the efficient use of budgetary funds.

The technique now proposed for sales of assets have evolved gradually during the past three administrations, stretching back in time to the mid-1960's. Both the Commission on Money and Credit, which produced its distinguished report in 1961, and President Kennedy's Committee on Federal Credit Programs, which was chaired by Secretary Dillon, recommended that vigorous efforts should be made to encourage private participation in Federal credit programs. A similar point was made in a minority report of the House Ways and Means Committee in 1963, which urged an expansion of the Federal Government's asset sales.

A guiding principle of these programs is that Federal credit should supplement or stimulate private lending rather than substitute for it. This is a matter of basic economic philosophy, as well as a recognition of the fact that the private market should, and will, continue to account for the bulk of all credit extensions.

Federal credit programs, working through the private market, help to make the market stronger, more competitive, and better able to serve the economy's needs over the long term, than if the Federal credit programs unnecessarily preempted functions that private lenders could perform effectively. In addition, use of private market facilities frequently can ease the problem of administering Government programs and make Government aid, where appropriate, more available to potential borrowers.

Carrying through these principles and recommendations, increased emphasis has been placed in recent years on greater use of Government guarantees of private credit and on direct sales of individual Government loans to private lenders. More recently, sales of indi-

vidual loans have been supplemented by pooling large numbers of loans and selling certificates of participation in such pools.

By the use of this efficient technique, the Export-Import Bank of Washington has been able, since 1962, to sell about \$1.7 billion of its direct loans which otherwise might not have been marketable. The Federal National Mortgage Association, acting as trustee under authority granted by the Housing Act of 1964, has been able to sell \$1.6 billion of participation certificates (including their current offering) in pools of housing mortgage loans set aside by its management and liquidation and special assistance functions and by the Veterans' Administration.

Even with these major efforts to draw on private credit, the volume of direct Federal loans outstanding has increased in recent years. It was \$25.1 billion on June 30, 1961, and \$33.1 billion on June 30, 1965. The estimated level for June 30, 1966, is \$33.3 billion assuming completion of the sales indicated in the latest budget document. Under the proposed program of asset sales, the volume of direct Federal loans outstanding would decline to \$31.5 billion on June 30, 1967.

The increase in asset sales largely arises from broadening the program, as proposed in your 1967 budget, to include sales of participations in assets of the Farmers Home Administration, the Office of Education, the college housing program, the public facility loan program, and the Small Business Administration.

The centralization of the participation sales activity in FNMA, by building on an already successful body of market experience, will help to assure the orderly and most economical sale of this paper. It will also assure the effective coordination of these offerings, not only with one another but also with the Treasury's own debt management operations. The alternative of having each of the agencies involved conduct its own sales operation would greatly complicate the coordination problem, would produce a wasteful duplication of efforts, and would result in a less effective and more costly operation for the Federal Government. Under the guidance of FNMA, the asset sales undertaken for newer programs, less well known to the market, would gain the benefit of seasoning and experience that has been built up already through the FNMA operations.

Another advantage of the pool arrangements goes back to the fact that a number of sound Federal loans carry interest rates significantly below levels at which private lenders would be willing to invest their funds in the present market. These rates, in many cases, have been written into the legislation setting up the programs. While the relatively low rates do not make the loans any less sound, these rates do mean that such loans could be sold directly to private investors only at substantial discounts.

The proposed legislation would make it possible to include such loans in marketable pools by providing, in effect, means for the agency owning the loans to make supplementary payments to the trustee of the pool to cover the interest insufficiency. The supplementary payments would be subject to the effective approval of the Appropriations Committees since these committees would authorize the amounts of any issues of participations on which supplementary payments are likely to be required. Section 2(b)(4) of the bill specifically provides

that the amount of any such participation issues be within aggregate principal amounts authorized in advance in appropriation acts.

A further advantage of the pool arrangements is in their ability to draw into the financing of public credit programs practically all sectors of the capital markets. Many segments of the market cannot deal in individual mortgages. Other sectors are not able to purchase individual business or college housing loans. But almost all segments of the market are potential investors in pool certificates. Two consequences flow from this: first, the market for a number of particular types of credit instruments is substantially broadened; and, second, sales of participations do not disrupt particular segments of the capital markets, as might be the case if the mortgages or loans were sold individually.

It has been pointed out on some occasions that the sale of Federal credit program financial assets, whether through participation certificates or other means, is more expensive than financing through the direct issue of Treasury obligations. This is true, although the cost difference has proved to be relatively minor. For example, FNMA participation certificates have been sold at rates roughly one-fourth of 1 percent above Treasury issues of comparable maturity; and it is entirely possible that the margin may diminish as the market gains experience with these high-quality credits.

Moreover, carried to its logical conclusion, this argument would have the Treasury financing directly all of the Federal insurance and guarantee programs, since it can obviously do this more cheaply than the private market. Other types of credit, now handled entirely in the private market, could also be financed more "cheaply" by the U.S. Treasury. We certainly wish to retain, however, the principle that the allocation of credit for essentially private purposes should be a function of the private market. That was the philosophy of the Commission on Money and Credit and of the President's Committee on Federal Credit Programs. It is a sound philosophy, and I believe we should continue our efforts to strengthen the private market as a means for achieving program objectives with a minimum of Government interference.

For the reasons stated above, we recommend that you transmit the attached bill to the Congress and urge its speedy passage.

HENRY H. FOWLER,
Secretary of the Treasury.

CHARLES L. SCHULTZE,
Director, Bureau of the Budget.

SECTION-BY-SECTION SUMMARY OF THE PARTICIPATION SALES ACT OF 1966

General

The bill would broaden and make available on a governmentwide basis authority for the sale of participations in pools of financial assets now owned by Federal credit agencies. This would be accomplished by revising the authority provided in 1964 under which the Federal National Mortgage Association as trustee sells certificates of participation in pools of assets set aside by the Veterans' Administration

and by the special assistance functions and the management and liquidating program of FNMA, and by making related changes in statutes of other agencies to permit such agencies to make use of participation sales methods.

Section 1. Short title

The bill would be cited as the "Participation Sales Act of 1966."

Section 2. Amendments to section 302(c) of the Federal National Mortgage Association Charter Act

Subsection (a) would amend existing section 302(c) of the Federal National Mortgage Association Charter Act to accommodate the provisions of new paragraphs (2), (3), and (4). The first and second amendments are technical. The purpose of the third amendment is to qualify for inclusion in participation trusts, securities held by various Government agencies even though they may not be within the technical definition of obligations. The fourth amendment would exempt participation certificates issued pursuant to this act from all regulation by the Securities and Exchange Commission. The fifth amendment would repeal the existing authority for appropriations to offset differentials arising from the issuance of participations based on below-market interest rate mortgages insured under section 221(d)(3) of the National Housing Act; this repeal is appropriate because of substitute arrangements provided in subsection (b) of section 2 of the bill.

Subsection (b) would add new paragraphs (2), (3), and (4), to section 302(c) of the FNMA Charter Act. New paragraph (2) would authorize the head of any executive department, agency, or instrumentality of the United States to set aside a part or all of any financial assets held by him, subject them to a trust or trusts, and to guarantee to the trustee the timely payment of principal and interest on the assets so set aside. Under the trust instrument FNMA would act as trustee, and title to the obligations so set aside would be deemed to have passed to FNMA in trust. The custody, control, and administration of the obligations, however, would remain in the trustor, subject to transfer in event of default in the payment of principal and interest of the related participation certificates issued by the trustee. The trust instrument would require the trustee to pay promptly to the trustor the full net proceeds of any sale of participations, and require the trustor to treat the proceeds as otherwise provided by the law for direct sales or repayments of such obligations. To facilitate liquidation of assets because of prepayments or defaults and to release assets for direct sale, any trustor would be authorized, through the facilities of the trustee, to acquire outstanding participations to the extent of his responsibility to the trustee. Any trustor would also be authorized to pay his proper share of the costs and expenses incurred by the trustee.

New paragraph (2) would also specifically exempt any such trusts from all taxation. This, in effect, would categorize the trust as a corporation and exempt its income from tax. Since the trust is a corporation, the income received by the participation holders would be taxable dividends, even if part of the income earned by the corporation would have been tax exempt if owned directly by an investor.

New paragraph (3) would authorize any trustor to fulfill his guarantee of the timely payment of obligations subjected to a trust by using

any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

New paragraph (4) would expressly authorize FNMA, as trustee, to issue and sell participations even if the aggregate receipts from obligations subject to the related trust are insufficient to permit the payment by the trustee of all interest or principal on the participations. However, the trustee cannot issue participations unless it determines there is a reasonable probability that the aggregate receipts from the obligations will not be insufficient, or unless the amounts of participations issued are within aggregate principal amounts authorized in advance in appropriation acts. Authority is given to include provisions authorizing the issuance of such participations in an appropriation act.

When the amounts of participations to be issued are authorized in an appropriation act or acts, indefinite appropriations would be established on the books of the Treasury in the amounts necessary to enable the trustor to effect timely payment to the trustee of any insufficiencies on account of outstanding participation. The trustor would be required to make timely payments to the trustee from such appropriations. Thus, purchasers of participations would be assured of timely payments of principal and interest without further action by the Congress.

Section 3. Reductions in new obligational authority

Subsection (a) amends section 305(c) of the FNMA Charter Act by reducing by \$450 million the aggregate potential authority of FNMA to purchase mortgages under its special assistance functions.

Subsection (b) would amend section 401(d) of the Housing Act of 1950 by reducing by \$300 million the borrowing authority of the college housing loan program. Both reductions are made possible by increased sales of participation certificates in existing loans.

Section 4. Office of Education revolving loan fund provisions

Subsection (a) of this section would amend section 303(c) of the Higher Education Facilities Act of 1963 to provide that appropriations for making academic facility loans would now be payable into the fund to be established by subsection (b) of this section.

Subsection (b) would add a new section 305 to the Higher Education Facilities Act of 1963 establishing a separate revolving fund for higher education academic facilities loans, available without fiscal year limitation. The total of new loans made from the fund in any fiscal year would be subject to limitations specified in appropriation acts. All appropriations available for academic facilities loans and all receipts from operations and from participation sales would be deposited in the fund. All loans, expenses, and payments would be paid from the fund, including expenses and payments to the Federal National Mortgage Association in connection with the sale of participations. The Commissioner would be required to pay from the fund into the Treasury interest on the net amount of appropriations used by the fund.

Section 5. Farmers Home Administration direct loan account provisions

Section 5 would amend section 338(c) of the Consolidated Farmers Home Administration Act of 1961 to transfer to the direct loan account

watershed protection and flood prevention loans, rural renewal loans, and resource conservation and development loans not now financed through revolving funds. The intent is to include among the loans eligible for pooling under section 2 all loans made by the Farmers Home Administration (including not only those in the direct loan account, but also those in the emergency credit revolving fund, rural housing direct loan account, agricultural credit insurance fund, and the rural housing insurance fund).

Section 6. Preservation of existing Veterans' Administration authority

Section 6 would make clear that nothing contained in this bill should be construed to repeal or modify the existing authority of the Administrator of Veterans' Affairs to enter into trust arrangements comparable to those contemplated by this bill. The intent of this section would be to authorize the Administrator of Veterans' Affairs to enter into trust arrangements either under the provisions of this bill, or under the provisions of section 1820(e) of title 38, United States Code.

[Treasury Department release, April 20, 1966]

TREASURY DEPARTMENT,
Washington, D.C., April 20, 1966.

PRESIDENT PROPOSES ASSET SALES LEGISLATION

President Johnson today sent to the Congress legislation designed to further the substitution of private for public credit in Federal programs. The proposed legislation—the Participation Sales Act of 1966—would authorize the extension of the technique of “pooling” loans and then offering shares, or participations, for sale on the private market.

This technique, now used by the Veterans' Administration, the Export-Import Bank, and the Federal National Mortgage Association would, under the proposed legislation, be extended to other lending programs such as college housing, public facilities loans, and programs of the Office of Education, the Farmers Home Administration, and the Small Business Administration.

The pooling of credits and sales of participations in the pools would be handled by the Federal National Mortgage Association, which has had extensive experience in this area.

This legislation represents another step forward in the time-tested policy of substituting private for public credit wherever possible. This policy not only makes maximum effective use of the funds available to finance Federal credit programs, but also helps to substantially reduce budget expenditures for such programs. In fiscal 1967, an estimated \$4.7 billion in direct Federal loans, will be sold on the private market—of which more than \$4 billion will represent participation sales. Without the proposed legislation, it is estimated that the sale of assets in fiscal 1967 would fall substantially short of the \$4.7 billion goal.

Attached are summaries of various aspects of the proposed legislation.

I. THE ROLE OF PRIVATE LENDERS IN FEDERAL CREDIT PROGRAMS

The proposed Participation Sales Act would enable various Federal credit programs to be financed by a technique which several agencies have used successfully in recent years. It would provide greater private lender participation in their loan programs and avoid locking up budget dollars in a bulging portfolio of direct Federal loans.

Encouraging the flow of private credit into Federal lending programs has been an important objective of the Congress and successive administrations for over a decade. It was endorsed by the Commission on Money and Credit in 1961 and President Kennedy's Committee on Federal Credit Programs in 1963. Since the mid-1950's, continuing efforts have been made to develop programs of Government guarantees and insurance of private loans—rather than direct Federal loans—and also to improve techniques for releasing Federal funds through the sale of Federal loan paper to private lenders.

The participation technique—that is, grouping loans in pools and selling participations or shares in the pool rather than selling the underlying loans directly—is a natural development in the financing of Federal credit programs. In major loan programs in the past, the Government's essential function has been to underwrite the credit risk and thus facilitate the flow of funds from large investors to small borrowers who do not have ready access to capital markets. The sale of participation certificates backed by the Government makes it feasible to obtain funds from private investors on a sizable scale for programs in which the ultimate borrower's name and credit standing are not well known. The Federal Government acts as an intermediary, much like a mortgage banker, between the borrower and the private capital market.

In practically all Federal credit programs, of which there are about 100, the Government assumes all or most of the credit risk. The reason these programs exist is that private lenders are either unwilling or unable to assume the loan risks on the credit terms and conditions necessary to meet the objectives established by the Congress for the programs. The Federal Government, by assuming the loan risk, stimulates the flow of funds from private investors to communities, organizations, and individuals. Assumption of the risk is essentially the same regardless whether:

The Government insures a Federal Housing Administration loan made by a mortgage banker, who then sells the loan paper to a large investor; or

The Government sells to large investors, on a guaranteed basis, a million-dollar package of small loans made and serviced by the Farmers Home Administration; or

The Government insures a multimillion-dollar ship mortgage under the Merchant Marine Act of 1936 which is ultimately financed through the sale of federally backed bonds; or

The Government makes the loans directly and then sells guaranteed participation certificates under the proposed legislation.

All of these techniques, including the last, to a limited extent, are in use in Federal credit programs today to reduce the reliance of those programs on Federal funds and draw more on private capital.

The Participation Sales Act of 1966 is a logical extension of policies and practices developed in the past. It is a natural evolution in the development of more efficient financing techniques. These techniques strengthen the private market in its ability to support the credit programs which our society and economy need.

II. HOW THE PARTICIPATION SALES ACT WOULD WORK

The participation sales technique provides an efficient, flexible, and controlled method of financing Federal lending programs.

This has already been demonstrated by the sale of approximately \$1.6 billion in participation certificates by the Federal National Mortgage Association under authority granted in the 1964 and 1965 Housing Acts.

The procedures under the proposed legislation would be substantially the same as those which have been followed in recent sales of participations in Veterans' Administration and Federal Housing Administration mortgages.

The major difference would be the requirement of prior authorization in an appropriation act, which would be a condition for the inclusion of relatively low interest rate loans in a participation pool.

Each lending agency would be authorized to enter into a trust agreement with Federal National Mortgage Association, under which it would—

Set aside on its books certain of its loans;

Subject them to a trust; and

For purposes of the trust, guarantee payments of principal and interest collections on the loans.

The bill would permit the substitution of other loans in the event of default or likely default on any of the loans subjected to the trust agreement. In addition, the lending agency would be authorized to guarantee the loans subject to trust. It would fulfill the guarantees, if necessary, by using any appropriated funds or other funds available for the general purposes of the programs to which the entrusted loans were related.

As it has already done for Veterans' Administration and Federal Housing Administration mortgage loans, FNMA, in its role as trustee, would issue and sell participations, either through an underwriting group or other suitable means. The participations would be based on the pooled obligations and on the right to receive principal and interest collections from those obligations.

FNMA would also, in its corporate capacity, guarantee all payments due on the participation certificates. For the purpose of making timely debt service payments, FNMA would be authorized to borrow from the Treasury under the procedures provided in the Federal National Mortgage Association Charter Act (subsec. (d) of sec. 306).

Because of the right of substitution and the lending agency guarantee, it is not anticipated that either the FNMA guarantee or the Treasury borrowing authority would be utilized. Further, FNMA could not draw on the Treasury in any way to increase its programs or those of participating agencies.

The purpose of the FNMA guarantee and drawing authority would be to provide additional safeguards which would help to assure the most favorable market reception for the participation certificates and hold down the interest rates at which they could be sold.

Proceeds from the sale of participation certificates would become available for new loans only to the extent that existing law authorizes such new loans.

The act would require that pooled loans generate sufficient income to meet the payments due on the participation certificates. The only exception would occur when an agency was authorized, in an appropriation act, to include obligations bearing submarket interest rates. In that event, an appropriation would be established on the books of the Treasury sufficient to enable the lending agency to pay to Federal National Mortgage Association, as trustee, the amount of the deficiency.

While title to the pooled loans would pass to Federal National Mortgage Association in trust, the lending agency would continue to maintain custody and

service of the loans. Borrower payments on the pooled loans would be paid periodically to Federal National Mortgage Association, to be applied toward payments becoming due on the participation certificates.

Any collection receipts in excess of the amounts needed to assure payment on the participation certificates would be returned to the lending agency after deduction of Federal National Mortgage's handling cost. Any additional expenses would be paid by the lending agency from appropriated funds or other available amounts related to the programs from which the pooled loans were drawn.

The participation certificates would be freely transferable. They would be lawful investments and could be accepted as security for all trust, fiduciary, and public funds of which the investment or deposit is under the authority and control of the United States or any of its officers.

National banks would be authorized to deal in the participation certificates and also to purchase them for their own account. The participation certificates would be eligible as collateral for Treasury tax and loan accounts.

The bill also provides for the withdrawal of loans from pools and the substitution of other loans in case of liquidation of assets because of prepayments or defaults, and in order to release assets for direct sales.

III. PARTICIPATION SALES ACT OF 1966 AND FEDERAL FINANCIAL MANAGEMENT

A primary objective of the Participation Sales Act of 1966 is to provide for more orderly and economic marketing of Federal financial assets to the private investment sector.

The bill provides for the orderly sale of participation certificates in pools of loans originated by various Federal credit agencies. The sales would be accomplished through the already established and proven facilities of the Federal National Mortgage Association, serving as trustee.

FNMA has already conducted a number of successful participation sales under the authority contained in the Housing Acts of 1964 and 1965. It has excellent relationships in financial markets.

It would be needless duplication of effort to develop this kind of experience, staffing, and competence in other Federal agencies. It would be costly to pay the premium necessary—in terms of higher interest charges—while these agencies gained thorough acceptance in financial markets.

The sale of participation certificates through FNMA would also assure the essential coordination of asset sales by different agencies. Agencies marketing their own assets run the risk of interfering with similar efforts on the part of sister agencies. All are marketing an essentially similar product—an obligation backed by the Federal Government.

Coordinated offerings through FNMA would mean that market offerings could be timed and adapted in other respects to minimize interest cost, maximize marketability, and, in general, gain the greatest benefit from this technique for drawing private investment funds into Federal credit programs.

The bill would also assure the most effective coordination of participation sales operations with the Treasury's debt management operations.

The Treasury has long-established and excellent working relations with FNMA in coordinating market operations with overall debt management policy. Although similar arrangements have been and could be established with other agencies, the coordinating job would become increasingly complex and would require unnecessary staffing and other administrative costs.

The problems of scheduling a large number of separate agency issues to avoid market congestion and to minimize the cost to the Government would be both formidable and unnecessary. Difficulties in timing and coordination would be compounded during periods of rapidly changing market conditions, leading to possible disruption of needed credit programs.

The participation instrument itself, as compared with the outright sale of Federal loans, provides significant additional marketing flexibility. Thus it would insure that Federal agency assets would be more readily salable at minimum interest rates.

The participation technique, in effect, converts obligations of relatively narrow market acceptability into obligations of broad marketability which are attractive to a wide variety of purchasers—banks, insurance companies, pension funds, and other institutional investors. Since the FNMA participations have already gained broad acceptance in the market, it makes sense to build on FNMA's experience.

Since the Government bears the risk in these credit programs, it should not have to pay premium interest rates to private investors merely because of super-

ficial differences among various Federal agency operations or because of market unfamiliarity with the value of the underlying guarantee.

The Participation Sales Act of 1966 is a recognition of and response to the growing size and complexity of Federal credit program financing operations and the need for coordinating those operations with the overall financial activities of the Federal Government.

IV. THE COST OF THE PARTICIPATION SALES PROGRAM

As with all investments competing for available funds in the private capital market, the rates required for participation sales will fluctuate from time to time in accordance with changing capital market conditions.

The most recent sale of FNMA participations—an issue of \$410 million—was sold to the public at rates ranging from $5\frac{1}{4}$ to $5\frac{1}{2}$ percent, depending upon the maturities involved. These rates, due to the tighter money market situation prevailing at the time of sale, were higher than in previous participation sales. Rates on participation sales have been as low as 4.10 percent, in October 1964.

The important point is that, in terms of prevailing market conditions, offerings of participation certificates generally have been well received by investors.

Compared with alternative means for selling assets, FNMA participation sales have attracted a wide variety of purchasers, including pension funds, insurance companies, commercial and mutual savings banks, and other institutional investors.

The inherent flexibility in the participation sales technique makes it possible to tailor the issues to market demands to a greater extent than would be possible with direct loan sales by agencies. Moreover, the widespread appeal of the participation certificates permits tapping the most readily available funds in the capital market at the lowest possible rates.

Clearly, direct sales of Federal financial assets would generally involve much higher interest rates than would sales of participation certificates of the type authorized in the proposed act.

Participation certificates carry somewhat higher rates than Treasury obligations of comparable maturity. But this is a small price for the advantage of attracting private investors to Federal credit programs, and avoiding the large budgetary drain that would result if means were not developed to move Federal financial assets back into the private sector.

With the security provided through the substitution provisions, agency guarantees, the FNMA guarantee, and the FNMA borrowing authority from Treasury, rates on participation certificates are close to the most favorable rates that can be obtained in the market. The rates are expected to move even closer to the rates on direct Treasury obligations as the program increases in volume, as greater market familiarity is achieved, and as secondary trading develops.

V. MAINTENANCE OF CONGRESSIONAL CONTROL

The Participation Sales Act of 1966 would maintain existing congressional controls over Federal credit program activities.

Two broad controls are included in the act. First, authority to use funds from the sale of participations in order to make new loans would be limited.

The funds could be used to make new loans only to the extent that the agencies involved are already authorized by the Congress to make such new loans; that is, the bill provides that the proceeds from the sale of participations must be dealt with as existing law requires for proceeds from sales or repayments of the loans.

Second, in the case of loans carrying relatively low interest rates, an added measure of congressional review is provided. An appropriation act would be required to make up any prospective deficiency between earnings on the loan portfolio and requirements for servicing the participation certificates.

The manner in which congressional control would be maintained or strengthened under the proposed legislation is best illustrated by reviewing certain specific areas which would be included under the asset sales program in fiscal 1967.

(1) The Small Business Administration is subject to an overall limitation on the amount of loans which it may have outstanding at any time. Recently, in testifying on a bill that would enable SBA to set up pools of loans and sell certificates of participation in those pools through FNMA, Mr. Ross Davis, Acting Administrator of SBA, stated that all loans subjected to the pool would continue to count against the agency's maximum authorization.

As stated by Mr. Davis: "SBA loans placed in the participations pool would continue to count against these program limits until repaid. Accordingly, any

funds raised by SBA through participation sales could not be utilized for additional loans except as permitted by these statutory authorization limits, which can only be raised by congressional action. The Congress and the Banking and Currency Committees would by this means continue to fully control the growth of SBA lending programs."

(2) The Community Facilities Administration in the Department of Housing and Urban Development administers two loan programs which would be affected by the participation sales legislation: the college housing loan program and the public facilities loan program.

With regard to the college housing loan program, the Housing Act of 1965 had the effect of establishing a maximum 3 percent lending rate in this program. This is substantially below market interest rates now prevailing for any type of security on which income is subject to Federal tax. (And it may be noted that income from participation certificates to be issued under the legislation would be subject to Federal tax, whatever the nature of the underlying obligations.) Consequently, under current market conditions, the inclusion of college housing loans in participation pools would require specific authorization in an appropriations act, since the bill provides that no pool may be established unless there is a reasonable probability that interest receipts will cover the servicing of participation certificates, or unless the amount of certificates to be issued is authorized in advance by an appropriation act of Congress to make up the difference between interest cost and earnings.

Congressional control over the public facilities loan program would operate in the same manner, since the lending rates under this program are also relatively low. At current market rates, an appropriation act of the Congress would be needed to be able to set up a pool of these loans and sell participation certificates in them.

(3) The Office of Education academic facilities loan program would be put on a revolving fund basis by the proposed bill. The bill also provides, however, that "the total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation acts." Consequently, the Congress would retain control of new loan activity, even though the program was shifted to a revolving fund basis.

(4) The Farmers Home Administration rural housing and other direct loan programs are already subject to the same limitations on new loan activity as would be provided by the bill for the academic facilities loan program.

The bill would also extend the limitation to loans under section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, in amounts, "not to exceed any existing appropriation or authorization limitations and in such further amounts as the Congress from time to time determines in appropriations Acts." The limitation in the rural housing direct loan account is substantially the same; this is, "The Account shall remain available * * * for direct loans and related advances * * * in such amounts as are now authorized by law and in such further amounts as shall be authorized in appropriations Acts."

The CHAIRMAN. This legislation, if enacted, would provide for the extension of the technique of "pooling" Federal loans and then offering shares, or participations, in such pools for sale on the private market.

Contrary to the impression that some would like to leave, this is not a new idea or technique. It is a technique that has been proposed by such outstanding groups as the 1958 Commission on Money and Credit. It is a technique that has been used by previous administrations. It is a technique which has been in the Export-Import Bank statutes since 1945 and which the Eximbank has utilized. It is a technique incorporated in the Federal National Mortgage Association under authority granted in both the 1964 and 1965 Housing Acts.

To date, FNMA has demonstrated the effectiveness of this technique by the sale of approximately \$1.6 billion in participation certificates under its authority granted in the 1964-65 Housing Acts. Likewise the Export-Import Bank has recently sold participations in a pool made up of Eximbank loans.

Contrary to these emotional smokescreens, the bill in fact is not substantive in nature but merely procedural.

The legislation sets forth an orderly procedure whereby private firms and individuals can and will participate in financing programs which have been initiated by the Federal Government. It is a program which will make maximum effective use of the funds available to finance continuing and new Federal credit programs and at the same time allow, where possible, existing Federal programs to be financed through this participation pool technique by the private market.

This morning our witnesses will be Under Secretary of the Treasury, the Honorable Joseph A. Barr, and following him, the Director of the Bureau of the Budget Charles Schultze.

Due to the fact that the full committee is meeting and to make sure that everyone has a chance to question the witnesses, we will strictly observe the committee's 5-minute rule on the first go-round of questioning.

May I express the hope that we stay in session on this bill today and tomorrow, if necessary, until we get the bill passed on. The House will be in session at noon for a short time. I do not think it will be long, but I would like to have the committee come back if we do not get back by noon, and it does not look too good that we will, we should come after the House has recessed in the afternoon and stay in session until we get the bill passed on this afternoon if we can. If not, meet tomorrow morning at 10 and stay until such time as is necessary. I am expressing that as a hope.

Mr. Widnall?

Mr. WIDNALL. The home mortgage market is in an unprecedented state of turmoil and confusion. This proposal would promote chaos in that market.

Why would any lender buy a 5 $\frac{3}{4}$ -percent FHA or GI mortgage and assume the cost or have to pay one-half of 1 percent for the servicing of such mortgage, when he can buy a FNMA participation and obtain a rate of 5 $\frac{1}{2}$ percent?

Inevitably, one of two things will happen. Either funds will be drawn from the home mortgage market or discounts will increase on FHA and GI mortgages and other home mortgages as well. This proposal will increase the costs of home mortgage financing.

Under this administration proposal, the Federal National Mortgage Association (FNMA) will be called upon to raise \$2.8 billion of funds for other Government lending agency programs. That will take \$2.8 billion of funds out of the private capital markets. That is \$2.8 billion of new competition for home mortgage financing. The irony of the proposal is that FNMA, which is a home mortgage financing facility, will be called upon to commit hari-kari in the home mortgage market.

This proposal is the way to ever higher home mortgage financing costs. That is the public's participation in this proposal.

We invite our good friends on the other side of the aisle who are opposed to increased mortgage financing costs to join with us in consigning this proposal to the deep freeze.

The CHAIRMAN. All right, are we ready to proceed?

Mr. TALCOTT. Mr. Chairman.

The CHAIRMAN. Mr. Talcott?

Mr. TALCOTT. You suggest that we have only 2 days on this bill and only one witness?

The CHAIRMAN. We have two witnesses who will testify.

Mr. TALCOTT. Who are the other witnesses?

The CHAIRMAN. We do not have any in contemplation other than the two we have. Of course, we will have to do this according to the will of the committee. If the majority says it wants it the other way we will do it that way. But I want to express the hope that we resolve this thing before we conclude tomorrow.

Mr. TALCOTT. Mr. Chairman, may I suggest a little hope here, too? This is a very important bill. I only saw a copy of it after 10:15 today. I came over here early so I could read it. It was not available to me when I came over. In considering a bill as important and far-reaching as this, we should have witnesses from industry and from some of the other agencies of the Government, such as FNMA. My hope and plea is that we have some more witnesses and ample time.

The CHAIRMAN. The gentleman is a very attentive member of this committee and we appreciate that. I feel sure if he listens to these witnesses he will know the whole story when they testify. And remember, this is an old subject, it is not a new subject, although it is a new bill. It is something that has been debated since 1945. It was in the Export-Import bill in 1945. How many years is that? That's 21 years. It ought to be of age by this time.

Mr. TALCOTT. It may be of age. But it is difficult to imagine how just one or two Government witnesses can even presume to represent industry. We certainly should have some industry witnesses here to give the industry view of this bill, it seems to me.

The CHAIRMAN. The point that the gentleman brought up, we will have a vote on.

Mr. BROCK. Mr. Chairman, if I may ask a question. May we ask the savings and loan people and the bankers which will have an enormous impact on the money market?

The CHAIRMAN. I would like to pass on that after these two witnesses are heard. It is possible that after the gentleman hears the witnesses he will be convinced and not wish to hear anyone else.

Mr. BROCK. I would like to be sure that I hear all sides. I do not think that ever hurts anybody.

The CHAIRMAN. Mr. Barr.

STATEMENT OF HON. JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY

Mr. BARR. Mr. Chairman and members of the committee, I welcome this opportunity to be with you today to support prompt passage of the Participation Sales Act of 1966. This bill is designed to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies and to promote private financing of Federal credit programs.

This legislation merely provides for an extension of a technique that has been carefully tested and has proved its value to the Nation. There is nothing essentially new or unusual in what we are proposing.

Under authority provided in 1964, the Federal National Mortgage Association, as trustee, has sold \$1.6 billion of certificates of partici-

pation in pools of assets set aside by the Veterans' Administration, and by itself under its special assistance and management and liquidating functions. The Participation Sales Act of 1966 would broaden and make available on a Government-wide basis this same authority for the sale of participations in pools of financial assets owned by Federal credit agencies.

The objective of this bill is to limit and to reduce the Government's portfolio of direct loans by substituting private for public credit. We cannot justify immobilizing the dollars of the taxpayer by holding larger and larger amounts of loans when the private credit markets can and want to participate with us in our credit programs.

In 1961, our loan portfolio stood at \$25.1 billion. By June 30, 1965, it had increased to \$33.1 billion. The program of asset sales in which we have engaged during fiscal year 1966 and the program that is proposed in the President's budget message for fiscal year 1967, will reduce this total to \$31.5 billion on June 30, 1967. Without the fiscal year 1966 action and the program proposed in the budget, the portfolio total would be about \$39 billion on June 30, 1967. This is clearly an unacceptable level.

The substitution of private for public credit has been a continuing objective of the Congress and successive administrations for more than a decade. It is a recurring theme in President Eisenhower's budget messages in 1954, 1955, 1956, and 1958. Encouraging the flow of private credit was strongly supported in the 1961 report of the Commission on Money and Credit and in the 1964 report of President Kennedy's Committee on Federal Credit Programs. Further, expansion of the asset sales program was urged in 1963 in a minority report of the House Ways and Means Committee on H.R. 6009 (to provide temporary increases in the public debt limit).

I quote from the minority report:

The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets * * *. For example, when the Secretary of the Treasury was before the committee on February 27, we suggested that it was incumbent upon the administration to show good faith before coming to the Congress for an additional increase in borrowing authority. We pointed out that the Government held about \$30 billion in loans, many of which were readily marketable. In fact, there was a very good market for many of these loans. Instead of increasing its offering of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in its borrowing authority * * *. Our refusal to grant the administration's request last February produced results. In the interim of less than 2 months the administration found that it could increase revenues from the sale of loans by an additional \$1 billion for fiscal 1963. Now, the administration estimates that it will realize \$2.082 billion—as contrasted with an original estimate of only \$0.929 billion less than 2 months ago.

This was the report of the minority of the Ways and Means Committee in 1963.

Let me outline the procedure which would be followed under the bill, including the effect of the provision bearing on the sale of assets carrying interest rates below those prevailing in current markets.

(1) Each lending agency would be authorized to enter into a trust agreement with FNMA under which it would set aside on its books certain of its loans, subject them to a trust and, for purposes of the trust, guarantee the loans, including timely payments of principal and interest. The bill would permit the substitution of other loans in the event of default or likely default on any of the loans subjected

to the trust agreement. In fulfilling its guarantee, the lending agency would be authorized to use any appropriated funds or other funds available for the general purposes of programs to which the obligations subject to trust are related.

(2) FNMA would, as it has already done as trustee for VA and FHA mortgage loans, issue and sell participations based on such pooled obligations and on the right to receive principal and interest collections from those obligations. FNMA would also, in its corporate capacity, guarantee all payments due on the participation certificates sold. For the purpose of making timely debt service payments, FNMA would be authorized to borrow from the Treasury under the procedures provided in subsection (d) of section 306 of the Federal National Mortgage Association Charter Act.

(3) Because of the right of substitution and the lending agency guarantee, it would not be anticipated that either the FNMA guarantee or the Treasury borrowing authority would have to be used. These additional safeguards, however, would help to assure the most favorable market reception for the participation certificates and minimize the interest rates at which they could be sold.

(4) Proceeds of the participation certificates sold would be paid over to the lending agency. They would become available for new loans only to the extent that repayments of the underlying obligations can be used for new loans under existing law and congressional controls.

(5) The loans pooled by the lending agency would have to be of such amounts, interest rate, and maturities as to insure principal and interest collections sufficient to meet the payments due on the participation certificates. The only exception would occur when an agency was previously authorized, in an appropriation act of the Congress, to include obligations bearing submarket interest rates. In that event, an appropriation would be established on the books of the Treasury sufficient to enable the lending agency to pay FNMA, as trustee, the amount of any deficiency. This is an important provision of this legislation which will insure that the Congress will maintain effective control over these programs.

(6) While title to the pooled loans would pass to FNMA in trust, the lending agency would continue to maintain custody and service of the loans. I want to make clear at this point that the lending agency would maintain complete administrative control over its programs.

(7) Borrower payments on the pooled loans would be paid to the lending agency and then turned over to FNMA to be applied toward payments becoming due on the participation certificates. Any collection receipts in excess of the amounts needed to assure payment on the participation certificates would be returned to the lending agency, after deduction of FNMA's costs. Any additional expenses would be paid by the lending agency, using either appropriated funds or other amounts available for the purposes or programs to which the obligations subject to trust were related.

The sale of participation certificates through FNMA would also assure the essential coordination of asset sales by different agencies. It would not make sense for agencies to market their assets in a way that interfered with similar efforts on the part of sister agencies. All marketing an essentially similar product—an obligation backed by the Federal Government.

Coordinated offerings through FNMA would mean that market offerings could be timed and adapted in other respects to minimize interest costs, maximize marketability, and, in general, gain the greatest benefit from this technique for drawing private investment funds into Federal credit programs.

The bill would also assure the most effective coordination of participation sales operations with the Treasury's debt management operations. The Treasury has long-established excellent working relations with FNMA in coordinating market operations with overall debt management policy.

Although similar arrangements have been and could be established with other agencies, the coordinating job would become increasingly complex and would require unnecessary staffing and other administrative costs.

The problems of scheduling a large number of separate agency issues to avoid market congestion and to minimize the cost to the Government would be both formidable and unnecessary. Difficulties in timing and coordination would be compounded during periods of rapidly changing market conditions, leading to possible disruptions of needed credit programs.

The participation sales technique, as compared with the outright sale of Federal loans, provides significant additional marketing flexibility and thus assures that Federal agency assets will be more readily salable and at lower interest rates.

The participation technique, in effect, converts obligations of relatively narrow market acceptability into obligations of broad marketability which are attractive to a wide variety of purchasers: banks, insurance companies, pension funds, and other institutional investors.

Since the FNMA participation instruments have already gained broad acceptance in the market, the Government should capitalize on this proven experience and avoid the "start-up" costs that other agencies would encounter if they approached the market individually.

This bill is a recognition of and response to the growing size and complexity of Federal credit program financing operations and the need for coordinating these operations with the overall financial activities of the Federal Government.

Again, I want to endorse this legislation and urge its prompt enactment.

Mr. Chairman, attached to my statement I have two illustrations. One illustrates the exact procedure that would be followed in the case of an agency placing in the FNMA pool a direct loan which carries approximately a market rate and the other illustrates the case of an agency placing a submarket rate loan in the pool.

One illustration is SBA and the other is college housing.

The CHAIRMAN. Would you like to enter them in the record?

(The information referred to follows:)

HOW THE PARTICIPATION SALES ACT WOULD WORK

The following two examples are illustrative of the procedures that would be followed in implementing the provisions of the "Participation Sales Act of 1966." Example No. 1, the SBA, outlines the procedures in the case of programs in which loans are made at market rates. Example No. 2, CFA college housing loans, details the procedures that would be followed in the case of a program with submarket rates.

Example 1. Small Business Administration

The Small Business Administration would enter into a trust agreement with FNMA under which SBA would set aside on its books certain of its business loans. These loans would be in such amounts, have such interest rates and maturities so as to assure principal and interest collections sufficient to meet the payments due on these participation certificates.

These loans would be subjected to a trust and would be guaranteed by SBA. To fulfill its guarantee, SBA would be authorized to use any appropriated funds or other funds available to it for the direct loan program. Following past practices, SBA could also be expected to set aside a reserve equal to 10 percent of the principal amount of the loans subject to trust. In addition, SBA would agree to substitute good loans in the event of default or likely default on any of the loans subjected to the trust agreement.

FNMA as trustee would issue and sell participations based on such pooled obligations and on the right to receive principal and interest collections from those obligations. FNMA in its corporate capacity would also guarantee timely payment of principal repayments and interest due on the participation certificates, and for this purpose FNMA, if necessary, would be able to borrow from Treasury any amounts needed under the procedures provided in subsection (d) of section 306 of the FNMA Charter Act.

Proceeds of the participations sold, after deduction of the costs of the transaction, would be paid over to SBA and become available for new loans subject to the overall loan authorization provided by the Congress. In addition, as Mr. Ross Davis has testified, SBA would continue to count against the loans outstanding authorization the principal amount of all loans placed in trust. Consequently, SBA would not be enabled to increase its loans outstanding except to the extent the Congress has already provided authorization for additional loans or provides additional authorizations for the same purpose in the future.

While title to the pooled SBA loans would pass to FNMA in trust, SBA, would continue to maintain custody and service of the loans. Consequently, SBA would continue to maintain complete administrative control over its programs.

In accordance with the trust agreement, SBA would pay over to FNMA periodically repayments of principal and interest on the pooled loans. Any collection receipts in excess of the amounts needed to assure the payments on the participation certificates would be returned to SBA after deduction of FNMA's costs, and any additional expenses would be paid by SBA from appropriated funds or other amounts available for the general purposes or programs to which the obligations subject to the trust are related.

Example 2. College Housing Loans, Community Facilities Administration

The Community Facilities Administration of the Department of Housing and Urban Development, would in the normal appropriations process request approval of the Congress to sell an amount of participations in the CFA loan portfolio. The Appropriations Committees would be free to approve or reject the request or to change the amount, thus maintaining strict control over the amount of funds which would be made available to CFA for new college housing loans.

If the Appropriations Committees approved the sale of, say, \$820 million, the amount proposed for fiscal 1967, of participations, there would be established on the books of the Treasury an indefinite appropriation which would enable CFA to pay FNMA the interest insufficiency arising from the difference between the rates of interest on loans and on participation certificates. Obviously, the Congress would be provided with estimates of the amount of anticipated expenditures under this appropriation but the exact amounts would, of course, depend upon market rates of interest at the specific times the participation certificates were sold.

This indefinite appropriation would cover the payments throughout the life of the participation certificates sold under the authorization. It would not run to additional issues of participation certificates for which new authorization would be required.

The Community Facilities Administration or the Department of Housing and Urban Development would then enter into a trust agreement with FNMA under which Community Facilities Administration would set aside on its books certain of its loans, all of which presently bear interest rates significantly below current market rates of interest.

As in the SBA example, CFA would subject these loans to a trust, and guarantee the loans, and undertake to substitute good loans for loans which default or are likely to default.

Similarly FNMA would as trustee issue the participations and in its corporate capacity guarantee the timely payment of principal and interest on the participa-

tion certificates, again with the support of its borrowing authority from Treasury.

Proceeds of the participation certificates sold would be paid over to CFA and become available for new college housing loans in accordance with the intent of the Congress in initially providing the authority to sell an amount of participations.

Again, as in the SBA case, CFA would continue to maintain custody and service of the loans and exercise full administrative control over its program.

Since the pooled loans would bear interest below the rate at which the participation certificates could be sold in the market, from time to time CFA would also draw on the indefinite appropriation authorized at the time the participation sale was authorized to make payments to FNMA for the amount of the interest insufficiency.

Mr. TALCOTT. Mr. Chairman, I ask that this witness defer from making his statement until the members of the committee have a copy of the written statement which we did not have when he started.

The CHAIRMAN. You may proceed.

STATEMENT OF CHARLES L. SCHULTZE, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. SCHULTZE. Mr. Chairman and members of the committee, I would like to discuss, briefly, today the background and some of the major features of H.R. 14544, the proposed Participation Sales Act of 1966. This legislation was transmitted yesterday to the Congress by the President to provide the authority needed to carry out his earlier recommendations for a more extensive and effective substitution of private for public credit.

As members of this committee are well aware, both the Congress, in authorizing—and successive administrations in administering—specific credit programs have relied primarily, as a basic policy guideline, on the use of private credit institutions rather than direct Federal loans wherever such reliance could be expected to produce the desired results. Historically, the major role of the Federal Government has been to encourage a smooth, efficient flow of funds between private borrowers and lenders. This has been done in two major ways:

By chartering, regulating, and insuring the deposits in financial institutions—banks and savings and loan associations—which pool the savings of many savers and from these funds provide credit to borrowers.

By guaranteeing specific loans to facilitate the flow of credit to borrowers where risks are otherwise unattractive to private lenders.

At present, almost \$100 billion in Government guaranteed or insured private loans are outstanding under programs long approved by the Congress, and each year the total steadily increases.

Even with such assistance some types of borrowers are not able to establish credit standing, or are remote from credit sources, or in the judgment of the Congress require interest rates lower than can be obtained from private lenders, even with a Federal guarantee. In such cases, the Federal Government makes direct loans. To meet the essential requirements of borrowers who cannot otherwise obtain loans on reasonable terms, the Federal Government has built up a large portfolio of direct loans. The basic purpose of the Federal Government in such programs, however, is not to build up a portfolio of financial assets, but to assume some or all of the risks involved in order to make loan funds available to borrowers who need it.

The legislation now before the committee would provide an effective method of carrying out the historic role of the Federal Government of assuming some or all of the loan risk in order to assist the flow of credit from lenders to borrowers. The Federal Government is fulfilling the same role whether it:

- Makes direct loans, pools the loans, and sells participations to private lenders, as under the proposed legislation;

- Insures a Federal Housing Administration loan made by a mortgage banker who then sells it to a life insurance company;

- Insures a ship mortgage under the Merchant Marine Act of 1936;

- Insures deposits in savings and loan institutions, assuming some of the credit risk, and thereby facilitating the flow of credit from savers to home buyers.

The circumstances in each case are different, so the techniques are different. But the basic principle of risk assumption is the same.

As one way of attracting private capital and minimizing the buildup in federally owned portfolios, lending agencies have found it possible, from time to time, to encourage private refinancing of such loans. Direct sales of individual assets have been the normal practice for the past decade or more by several major Federal lending programs. But there are limits to the volume of such loans that can be efficiently marketed in this way. Many loans are too small and too expensive to administer to be readily marketable. If the private lender has to select the assets on a retail basis and undertake their administration, it is often not worthwhile for him to purchase them. The process of pooling a number of such loans and selling paper representing participations in the pool serviced by the original lending agency, however, converts a loan instrument of very narrow acceptability into one with very wide attractions. In the relatively brief period since 1962 when the Export-Import Bank initiated its program, and since 1964 when FNMA was authorized to sell participations in its own and VA assets, more than \$3.3 billion in such certificates have been successfully sold.

We can now clearly demonstrate that participation sales are a much more efficient method of selling most Government loans to private lenders than direct sales of individual loans. More loans can be sold in total, and the net cost of selling the loans is less whether measured in terms of administrative and selling costs or in terms of the yields which have to be paid on the assets to make them salable.

Let me discuss, briefly, the last topic mentioned above, the yields necessary to sell participation certificates in the private market. On the one hand, as I have pointed out, this is the most inexpensive means of attracting private credit into these programs. On the other hand, it is true that the interest rate on participations is slightly higher than the rate on Treasury bonds. Experience in the past has indicated a premium of 25 to 35 basis points—one-fourth to three-eighths percent—and this premium should decline as a larger volume of participations are issued and a broader secondary market develops. Of course, Treasury borrowing is cheaper than any other form of financing, but this is hardly a reason to abandon the historic Federal role of assisting the flow of private credit to borrowers. Should we borrow through the Treasury and add to the public debt as a replace-

ment for FHA-insured and VA-guaranteed mortgages, or guaranteed small business loans? I do not believe that any administration or any Congress has ever operated on the premise that the U.S. Treasury should replace private credit simply because the Treasury can borrow more cheaply than anyone else.

I should now like to call attention to several major features of the bill before the committee.

1. H.R. 14544 will make available, on a Government-wide basis, the authority to pool financial assets and to sell, through FNMA as trustee, certificates of participations in such assets.

Under present law the FNMA as trustee can sell certificates of participation in any type of loans owned by the Department of Housing and Urban Development as well as first mortgage loans owned by other agencies. The language of H.R. 14544 would permit any Federal department or agency with direct lending authority to place any of its loans in a pool and would authorize FNMA as trustee to sell certificates of participation in pools of such assets.

The President in his 1967 budget has explicitly proposed that this new authority be used by the following credit programs not now engaged in participation sales:

Department of Agriculture, Farmers Home Administration.

Department of Health, Education, and Welfare, Office of Education, academic facility loans.

Department of Housing and Urban Development, college housing loans, and public facility loans.

Small Business Administration.

To facilitate sales by the Office of Education and the Farmers Home Administration, the legislation contains necessary modifications in existing laws governing the programs.

2. To facilitate sales of participations in pools of loans bearing interest rates below market levels, H.R. 14544 provides for supplemental payments adequate to cover any insufficiency of receipts from assets in the pool as necessary to meet the payments on the certificates. This provision is highly important because under present laws governing many direct loan programs a large share of the loans have been made at interest rates significantly below the levels prevailing in the private market—as well as below the cost to the Treasury of obtaining the funds. These supplementary payments, in and of themselves, do not add to Federal outlays, but merely recognize explicitly the present cost now incurred by the Federal Government in such loan programs, which are not specifically identified in the budget.

3. H.R. 14544 provides for effective review and control in appropriation legislation, of the sale through participation pools of any assets requiring such supplemental payments. It does this by requiring that the amounts of any such certificates issued shall be within aggregate principal amounts authorized in advance in appropriation acts. If and when appropriation language is enacted specifically authorizing such certificates the necessary appropriation would automatically become available to cover the differential.

4. Finally, as the Under Secretary has already emphasized, under H.R. 14544 all future sales of participations by these agencies would be carried out under the experienced management of the Federal National Mortgage Association—assuring effective coordination of

the various credit programs, as well as with Treasury debt management operations.

As outlined in this year's budget, the President's program for 1967 relies upon a considerable expansion in the sale of financial assets. Of the total 1967 sales estimate of \$4.7 billion, \$4.2 billion represents the sale of certificates of participation and \$2,850 million of this requires the provision of new legislative authority now before the committee.

The total loan portfolio of the Federal Government now exceeds \$30 billion. In the absence of an offsetting sales program, this portfolio will continue to grow year by year as it has over the two decades. The effect of this growth will be increased net budget requirements.

In summary, the authority contained in this bill provides a most efficient method of allowing the Government to play its historic role in assisting credit through risk assumption without building up unnecessarily a huge portfolio of loans.

Our expanding economy will require increased capital outlays for many years to come in order to finance such important programs as education, health, transportation, and public facilities. Private financing, if obtainable, is clearly preferable and should, to the maximum extent possible, be utilized to meet these urgent needs.

The Federal Government can and should provide the necessary services such as smoothing the imperfections in the private credit system, in order to maximize the participation of the private financial sector. As I indicated earlier, this is an historical role for the Federal Government in the credit markets of the Nation. We need not and should not hold loans which the private sector can handle. Or, to put this another way, the purpose of the Federal loan programs is to assist the borrower to obtain funds on a reasonable basis—not to build up a large portfolio of federally owned loans.

For all of these reasons, I urge early enactment of H.R. 14544.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Barr, hasn't there been a demand for this legislation from both political parties over the last few decades?

Mr. BARR. Yes, sir, Mr. Chairman. As I mentioned in my statement, this was a recurring theme in President Eisenhower's budget messages in 1954, 1955, 1956, and 1958.

It has not only been supported on a bipartisan basis, Mr. Chairman, but many reasonable and thoughtful men have looked at this problem and have come to the conclusion that an approach such as this should be adopted. I am referring specifically to the Commission on Money and Credit which included such distinguished gentlemen as Mr. Joseph Dodge, Mr. Schultze's predecessor under President Eisenhower. I am also referring to President Kennedy's Committee on Federal Credit Programs which was chaired by Secretary Dillon on which the Chairman of the Federal Reserve Board sat together with representatives from the rest of Government.

I also refer you specifically to, as I mentioned in my statement, a very strong admonition contained in the minority report of the House Ways and Means Committee in 1963 in which the minority specifically told the administration that it should not be coming back to Congress for an increase in the public debt until it had done what it could to reduce the portfolio of loans which they thought was unnecessary for us to hold.

I might add that we listened to the minority report of the Ways and Means Committee and we did intensify our efforts, starting in 1963, to follow this suggestion. This bill is merely a continuation of this long historic precedent.

The CHAIRMAN. And it is in favor of what we call the private enterprise system as distinguished from Government, is it not?

Mr. BARR. Yes, sir.

The CHAIRMAN. It is in that direction.

Mr. BARR. It is definitely in that direction. As Mr. Schultze pointed out, this is an attempt by the Government to enable sectors of this economy who for one reason or another have an imperfect access to the credit markets to get to the markets at a reasonable rate with the assistance of this Government and under strict and careful congressional control.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. Director Schultze, on page 5 of your statement you address yourself to the comparison with Treasury borrowing. You say that is cheaper than any other form of financing, but that this is hardly a reason to abandon the historic Federal role. Then you ask, should we borrow from the Treasury and add a public debt as a replacement for FHA and other mortgages as listed here—FHA mortgages and small business loans which in the nature of things require a banker's judgment in the making, and in which the role of the Federal Government is largely that of a guarantor or insurer. Those extensions of credit are by no means all of the Federal portfolio. As I understand it, Uncle Sam now owns \$30 billion of loans, and is on the hook for about \$70 billion worth of insurance, for a total of \$100 billion.

Mr. SCHULTZE. Thirty billion-plus we own, and almost another hundred billion we back with various kinds of insurance and guarantees. The 100 does not include the portfolios that we own.

Mr. REUSS. So there is 130 exposure.

Mr. SCHULTZE. Correct.

Mr. REUSS. Getting back to my question. I can see your point perfectly. There is no use talking about Treasury financing for FHA mortgages. But what percentage of the \$30 billion is direct Government loans?

Mr. SCHULTZE. All of them.

Mr. BARR. All of them.

Mr. SCHULTZE. That's why we made the loans. We made the loans and own the portfolio.

Mr. REUSS. That \$30 billion doesn't include FHA loans?

Mr. SCHULTZE. No, sir. If I may back up a moment. What I was trying to point out is the continuum of Federal assistance in the private credit markets. Historically the Federal Government has assisted the flow of funds in a number of ways: First, by taking some of the risks in private financial institutions by insuring their deposits. Obviously this gets a smoother flow of credit and tends to assure lower interest rates. Secondly, through guarantees of individual loans as in the case of housing or ship mortgages, where this result can be achieved as part of a transaction between private lender and private borrower directly. Finally, there are cases where, because of the remoteness of the borrower from credit sources, his inability to establish a national credit rating or because the Congress

and administration have agreed that lower than market rates need to be obtained, and the only way to get the loan is to have the Federal Government make it directly. My point was that the objective of these programs is not to put the Federal Government in the business of accumulating the portfolio. The objective is the same as in the other cases, to assume some of the risks and get the funds in.

Mr. REUSS. Yes. I take it the second and third categories make it \$30 billion.

Mr. SCHULTZE. No, sir.

Mr. REUSS. Is the third category the \$30 billion itself?

Mr. SCHULTZE. That is the direct loans made by the Federal Government, the paper owned by the Federal Government.

Mr. REUSS. Your arguments against Treasury financing do not really apply to that third category, do they, because in it you do not have any interplay of private credit granting authorities anyway.

Mr. SCHULTZE. What I am saying really is that the interplay is clearly less, but again, it is an extension of what the Federal Government has done for years. The intervention, for example, is very little in the case of insurance of bank deposits. The intervention is greater with guarantee of a VA loan. The intervention is even greater where the Federal Government has to make the direct loan. But it seems to me the principle is the same. We want to get the credit in. There is no reason for the Federal Government to hold the portfolios.

Mr. REUSS. I ask this question because while I heartily approve the principle of this in general, I would think that in the future—after this participation sales principle gets into operation, and after we find out what the real differential in any Treasury borrowing is—we might want to take a look at that differential. We should see if the taxpayer would have an advantage if we separate these Government credits in which the private credit mechanism doesn't really play a very meaningful role. We might find that you wouldn't really hurt private credit participation, but could save some millions of dollars of taxpayers' interest costs. I gather you are prepared to say that there is a difference between the direct Government loan programs and the guaranteed program?

Mr. SCHULTZE. Yes, sir.

Mr. REUSS. In terms of the participation?

Mr. SCHULTZE. Yes.

The CHAIRMAN. Mr. Widnall?

Mr. WIDNALL. Mr. Schultze, this Participation Sales Act of 1966 is a masterpiece of sneaky draftsmanship. It is so sneaky that I think even the Treasury Department itself has been misled. And, being misled, the Treasury Department in turn has, I believe, unwittingly misled the press.

The CHAIRMAN. That word "sneaky"—don't you think it is rather strong, Mr. Widnall?

Mr. WIDNALL. I weighed it fairly carefully before I used it, Mr. Chairman. Would you let me just finish the statement at this time? I refer specifically to Treasury Department Position Paper No. V entitled "Maintenance of Congressional Control," handed to the press yesterday.

The first paragraph of that paper states, and I quote: "The Participation Sales Act of 1966 would maintain existing congressional controls over Federal credit program activities."

That statement is absolutely false.

The authorizing committees for the various programs will lose control of the volume of activity in the programs unless the language of the bill is changed so as to "require" that an agency pooling loans "guarantee" to the trustee timely payment thereof. The bill does not do this. Instead of saying the agency "shall," it says the agency "may" guarantee. On the mimeographed copy of the bill, I refer to page 2, line 13, in which it says "may" guarantee. If the authorizing committee control is to be maintained, that "may" must be changed to "shall."

Mr. Secretary, will you consent to such a change in the text of the bill?

Mr. SCHULTZE. Yes, sir; and Under Secretary Barr will explain why the word "may" was originally in. We will consent to such a change.

Mr. BARR. Mr. Widnall, the most I could get from the Treasury lawyers who drafted this bill is that the word "may" is connected in some way with the authority of States to tax these obligations. Now, not being a lawyer, I am not precisely certain what they were driving at. I am now advised by the lawyers, however, that shifting from "may" to "shall" would not raise a serious question, and we would accept that change.

Mr. MOORHEAD. Will the gentleman yield? Could we identify this "may" or "shall" on the printed copy of the bill?

Mr. BARR. It is on page 2, line 15, Mr. Moorhead.

Mr. MOORHEAD. Thank you.

Mr. WIDNALL. The Appropriations Committees of the Congress would be given the runaround except in cases where assets pooled do not produce sufficient funds to pay debt service on the participations sold. This is made abundantly clear in Treasury Department Position Paper No. II entitled, "How the Participation Sales Act Would Work."

On page 2, at the bottom of the page, it states:

The act would require the pooled loans generate sufficient income to meet the payments due on the participation certificates. The only exception would occur when an agency was authorized, in an appropriation act, to include obligations bearing submarket interest rates.

I challenge you to show me anything in the bill that approval of the Appropriations Committee is required for the amount of participations to be sold except in the cases where funds will have to be provided to make up deficiencies between payments received on loans pooled and payments made on participations sold. Do you care to attempt to disprove my statement?

Mr. SCHULTZE. That is basically correct. The point is, when there is involved here a difference between the income going in and the income coming out, this thereupon will involve an appropriation requirement. The Appropriations Committees will approve the total amount of the participation which can be sold. You are quite correct; as is now the case.

Mr. WIDNALL. As a matter of fact, Mr. Secretary, I think there is even question that Appropriations Committee approval is required in the case of sales of participations in pools of submarket assets. The bill says "it shall be in order," and the bill also says "whenever such an aggregate principal amount is so authorized" to be appropriated. At best, that is an indirect, left-handed approach, if indeed it is intended to state a mandatory requirement.

Mr. SCHULTZE. I do not have the printed copy of the bill—here it is. If I can just find it for a second.

Mr. WIDNALL. Would there be any objection to replacing what appears to be vague language with a clear statement that the Appropriation Committees must approve all proposed participation sales?

Mr. SCHULTZE. It says here on page 5, line 14, of the printed bill—*Provided*, That no such beneficial interests or participations shall be issued in relation to any obligation unless the trustee determines there is a reasonable probability there will not be an insufficiency as aforesaid or unless the amounts issued are within aggregate principal amounts authorized in advance in appropriation acts.

The next part: “and it shall be in order to include,” simply to give the Appropriations Committee authority to do it.

Mr. WIDNALL. How about changing the “or” to “and”?

Mr. SCHULTZE. Line 10?

Mr. WIDNALL. You just read it.

Mr. BARR. May I suggest, Mr. Widnall, that our purposes are pure in this area and I would suggest that the Treasury Department lawyers, the Bureau of the Budget lawyers, and your lawyers confer on this. Our intent—I want to establish the legislative history at this point—is very clear. Whenever a submarket rate loan is moved into one of these pools, it involves an expenditure, and we want that expenditure to be appropriated by the Congress of the United States through appropriation legislation. That is our intent. As to whether or not we are accomplishing this objective through the legislation—this is a complicated provision. I would be delighted to have our lawyers start to work with your lawyers this afternoon to see if we are accomplishing the purpose which I specified.

Mr. WIDNALL. Thank you, Mr. Secretary. We will come back to that. My time is up.

The CHAIRMAN. Mr. Moorhead?

Mr. SCHULTZE. May I confer just a second?

Mr. MOORHEAD. I would like to ask you gentlemen, Can FNMA mix together in one of these pools under this bill obligations from different agencies? In other words, can we put together SBA and college facilities and then sell participations in that kind of pool?

Mr. SCHULTZE. Yes, sir.

Mr. MOORHEAD. Now suppose that the interest rate on one class of obligations was sufficient to offset the below market rate of the other agency, would you have to go to the Appropriations Committee?

Mr. SCHULTZE. Yes, sir.

Mr. BARR. Yes, sir.

Mr. MOORHEAD. Whenever the pool contains one below market rate—

Mr. SCHULTZE. This runs to the agency. If there is a prospective insufficiency in the receipts from the assets being pooled, advance approvals would be necessary of the overall maximum amount of the certificates issued by that agency.

Mr. MOORHEAD. In order for the particular agency to put it into the pool it would have to get approval. Once it is in the pool the FNMA is authorized to give it a mixture of obligations.

Mr. BARR. Mr. Moorhead, it might be useful to walk through an illustration. This is an important point and I think it would be useful to walk through and illustrate precisely what we are talking about.

Mr. MOORHEAD. As you walk through would you consider the bill that we had before us last week, or the week before, on SBA and point up wherein the procedures contemplated in this bill are different from the procedures contemplated in the other bill?

Mr. BARR. The procedures, Mr. Moorhead, to answer the last part of your question first, are essentially the same in this bill as they were in the bill that was before you, except that this bill goes to the sub-market rates and provides for the appropriation process.

Let me now walk through the steps involved.

Let's say there was a pool put together composed of \$500 million of college housing loans, \$250 million of SBA loans, \$250 million of Farmers Home loans. The college housing loans carry a 3-percent rate; the Farmers Home rates vary considerably—some of them are market rates, some of them are lower; and SBA loans are usually made at or near the market rate.

Now, Community Facilities Administration if it wanted to put the \$500 million of college housing loans in the pool, would have to go to the Appropriations Committee and get authority from the Appropriations Committee to move those loans into the pool, and with that authority would go the appropriating authority to make up the difference between the 3-percent rate and the rate at which the participation would be sold.

SBA would not have to go to the appropriating committee, if, in FNMA's judgment, the loans they put into the participation carry an interest rate at least equal to that at which the participation will be sold. The burden of proof is on them. If proved that they could not sell them off at the rate they carry, the participations could not be sold at all until approved in an appropriation act.

In the case the Farmers Home Administration loans, since some of their loans are at less than the market rate they would have to get the appropriation act authority to put them in the pool.

However, you could pool all three types of loans in one participation sale. In the case of two of them it would take an appropriating action because an expenditure is involved. In the case of the SBA, if there is not an expenditure involved, they would not need to go to the Appropriations Committee. Is that clear?

Mr. MOORHEAD. I thank you, Mr. Secretary.

Would I be correct in saying that this bill, thinking of the Government as a whole, would be more effective in transferring assets to the private market because it is broader than the SBA bill we were considering last week or so, because we could have a better opportunity to make a better mix to fit the needs of a particular type of investor.

Mr. BARR. That is correct. I think Mr. Schultze wants to speak on that, too.

Mr. SCHULTZE. I agree fully with you. I might make one point that I think is relevant. As far as I know, it is outside the realm of controversy that the Federal Government—at least if we can read the record of the past 10 years, the statements of both parties, both in the Congress and in the administration—the Federal Government should, when practical, try to dispose of some of this loan portfolio because the Government is not in business to hold a loan portfolio. One of the advantages of this bill, particularly when you are dealing with mortgages, is that it broadens the number and types of lenders who would be interested. You are not socking the mortgage market

in the head when you are trying to get rid of the portfolios. So it has the great advantage of an even broadly distributed market, and when you dispose of the assets you are not picking on individual segments of the market. So it has that additional advantage.

Mr. MOORHEAD. On page 2, of the section-by-section summary of the bill in the second paragraph, it says, the income received by participation holders would be taxable dividends. I question the word "dividends."

Mr. SCHULTZE. I suspect that the tax lawyers put it in. I am perfectly willing to examine that, Mr. Moorhead, but I would hesitate to give you the word on whether the word "dividend" is correct or not.

Mr. BARR. Mr. Moorhead, what we are saying is that if you own a participation in a pool of assets that might contain some tax exempt securities, you will nevertheless pay Federal taxes on the income you receive from that participation.

Mr. MOORHEAD. Thank you.

The CHAIRMAN. Mr. St Germain?

Mr. ST GERMAIN. I think there is one question to be answered. Essentially, what are the projected costs involved?

Mr. BARR. Mr. St Germain—

Mr. ST GERMAIN. The interest rate yield. This would have to be a subsidy I suppose made by the various agencies in order to make these loans.

Mr. BARR. Mr. St Germain, on the subsidized loan, that cost is already being borne by the Federal Government. In the case of a 3-percent loan at today's market, the subsidy, if you compared it to FNMA securities, would be roughly $2\frac{1}{4}$ to $2\frac{1}{2}$ percent. If you compared it to Treasury long-term securities, it would be over 2 percent. That subsidy is built in regardless of whether we raise the funds for making the loan from taxes or whether we borrow them in the market. That subsidy is built in.

The issue we would have to examine is how much more expensive is it for us to borrow through the Treasury than it is to borrow through this route. We anticipate that the spread would be between a quarter to three-eighths of 1 percent. We think it will narrow to a quarter percent and we believe it will come even lower than that. However, if you assume that there is a difference of a quarter of 1 percent between the cost of borrowing through the Treasury and the cost of borrowing through this participation route—and if we sell \$4.2 billion in participations in fiscal year 1967—the cost to the taxpayer for getting what I call instant money in 1967 would be between \$10 and \$14 million.

Mr. BROCK. Would the gentleman yield?

Mr. ST GERMAIN. Yes.

Mr. BROCK. I think I must have misunderstood the gentleman. It is my understanding that at the current market the differential is a half of 1 percent and not a quarter.

Mr. BARR. It ranges from a quarter to three-eighths of 1 percent. The market varies considerably over time, Mr. Brock, but on the average I would say the differential is closer to a quarter percent.

Mr. BROCK. Today, within the past week, the differential was half of a percent, or fifty-five one-hundredths.

Mr. BARR. Which end of the market are you comparing it with?

Mr. BROCK. Both are the same.

Mr. SCHULTZE. I figured this might come up, so I have a number of quotations. Let's take the 1980 maturities. The difference on Monday of this week, I do not have Tuesday or Wednesday, was 31 basis point. For the 1980 maturity that is. If you go down to 1969, it is 30 basis point. If you go to the 1973's, it is 27 basis point. If you look at the quotations on March 2 it turns around and there is a minus. It jumps all around and—

Mr. BROCK. The price as offered—that is the price that is relevant. The differential on 1980's on March 16 was sixty-seven one-hundredths—there is a real differential there. The lowest differential was forty-three one-hundredths. Not one was close to a quarter.

Mr. SCHULTZE. The point there, Mr. Brock, is that we are comparing yields on outstandings. Because of the 4¼-percent limitation there has been no Treasury issues outside the 5-year range. So it is impossible to get a new issue comparison. All you can do is look at the quotations on five dates and as I say, they range.

Mr. BROCK. Isn't the yield comparatively relevant, then?

Mr. SCHULTZE. It is relevant, but the yield comparison on outstanding is not the same.

The CHAIRMAN. Mr. St Germain has the floor.

Mr. ST GERMAIN. I wanted to get the attention of the witness back at this side of the table for a moment.

Mr. CHAIRMAN. The gentleman declines to yield further at this time.

Mr. ST GERMAIN. On page 2 of your statement, the top sentence, when the private credit markets can and want to participate with us in our credit programs, you made an unequivocal statement. I think in view of the comments by some of the other members of the committee that perhaps they might want other witnesses, I think this should be backed up if you can to explain to us what indications there are that people are ready, willing, and able awaiting this very, very eagerly.

Mr. BARR. The best indication that I can give you is to point to success we have had with this route in the case of two institutions. The Export-Import Bank, sold \$1,700 million; and FNMA, through this mechanism, has sold \$1.6 billion since 1964. That is the best indications we have.

Mr. ST GERMAIN. I am wondering about the sales from January of this year to date. Have they been at the level they have been prior to January of this year?

Mr. BARR. I can submit that for the record. I think they are slightly higher. The last issue of FNMA on April 4, was for \$410 million and it was oversubscribed.

(The information referred to follows:)

Sales to date of FNMA participation certificates

Date of issue	Amount	Average in term years	Average reoffering yield
Apr. 4, 1966	\$410,000,000	9.34	5.390
Dec. 1, 1965	375,000,000	8	4.703
July 1, 1965	525,000,000	8	4.492
Nov. 2, 1964	300,000,000	5.5	4.306

Mr. ST GERMAIN. Nothing further.

The CHAIRMAN. Mr. Fino?

Mr. FINO. Thank you, Mr. Chairman.

Let me tell you gentlemen that with all this talk of pools and pools and pools, it seems to me we are preparing the American taxpayers for a financial bath.

Is it not a fact that this administration proposes to sell participations in inflationary budget deficit years to disguise the deficit in our budget?

Mr. BARR. I will speak briefly to that. I think it is impossible to disguise a budget deficit no matter how you want to look at it. We have the Budget and Accounting Act under which we live. I think the country, and especially the financial community, is well acquainted with it. This is a way of reporting the accounts of the United States. If you want to interpret it one way you can come up with a deficit. Other people can interpret it another way and come up with a different result. It is a method of accounting.

Mr. FINO. Well, has not the White House said—or someone in the White House said—that if this goes through, this plan, this bill goes through, that the deficit will only be \$1.8 billion and if it does not go through the deficit will be about \$8 billion?

Mr. SCHULTZE. Well, in the first place, the deficit projected for fiscal 1967 is \$1.8 billion. That calculation does include the impact of these sales. We do not believe, and I do not think any administration has ever believed that the orderly disposition of some of the assets it owns is in any means either sneaky, or hiding deficits, or anything else. We believe that this is a quite appropriate way for the Federal Government to operate, and we are not in business to be holding large portfolios of loans. It is a perfectly legitimate, in fact, quite desirable aspect of budgeting to dispose of assets that the Federal Government has no business carrying in such large volumes.

Mr. FINO. Mr. Schultze, you agree with me that if this bill goes through, when we dispose of these participations, that the deficit will be \$1.8 billion?

Mr. SCHULTZE. Yes, sir.

Mr. FINO. You will not agree with me that if this bill does not go through that the deficit will be about \$8 billion—\$6 billion, rather?

Mr. SCHULTZE. First, the amount of participation sales contingent upon this bill is \$2,850 million. If you add that to the \$1.8 you come to \$4.6 billion. If you want to phrase your question in terms of what happens if no financial assets are sold, then you would have to add a 4.7 to the 1.8 to come to 6.5. But the bill itself contemplates \$2.8 billion.

Mr. FINO. Is it not pure and simple hypocrisy to talk about private credit being brought in to take the place of Government money in these loans? Is not that hypocrisy when we know the GAO in a January 1966 report said that about 20 percent of the loans made by the Farmers Home Administration could have been made through private credit?

Mr. SCHULTZE. On this specific issue of which loans in the Farmers Home Administration could or couldn't have been made, it is very difficult for me to answer that in specific terms. What I can point out to you, Mr. Fino, is that we have gone into this business of substituting private for public credit in a lot of ways, and the Bureau of the Budget participating with the Farmers Home Administration submitted and the Congress passed a bill to insure loans in a program

where this was feasible. So that I think our record as a matter of fact, has been quite good. The whole thrust of substituting private for public credit, something that has been pushed over the last decade in a number of ways—this happens to be one of them but not the only one and I cite you this conversion of a Farmers Home Administration program. It may very well be that there were some other direct loans made which might very well have been insured. This I do not know. But I do know that the bulk of the program, for the first time, was turned into insured programs. This was, we feel, a desirable accomplishment.

Mr. FINO. For years, Mr. Schultze, the Congress has tried and tried pretty hard to get Government out of business. And yet under this plan we are getting ourselves, when I say ourselves I mean the U.S. Government, into the brokerage business. We are expanding our facilities.

Mr. SCHULTZE. Quite to the contrary, it seems to me, Mr. Fino. As I indicated earlier, the basic purposes, as I understand them at least, a number of these direct loan programs are related to the fact that the Congress has decided that the borrowers cannot get credit under the normal credit mechanisms. Hence we have direct Government loans. But the purpose of them is to get the credit in, not to have the Federal Government act as a backer, and hold all those portfolios. We believe we are getting the Government out of business by getting rid of the portfolios. We believe this is the most effective way of doing it.

Mr. FINO. Not doing it. If you really want to get the Government out of business you would get all this portfolio and sell it even at cost or half the price. Take the loss and get out of business.

Mr. SCHULTZE. As a matter of fact, precisely on this point, Mr. Fino, we are doing two things, one, we are still selling loans directly. There are \$500 million of direct sales of loans individually programed in the 1967 budget. One of the reasons we do not push that any further is, first, because a large number of the loans would be very difficult to market individually. Second, precisely the point Mr. Widnall made, we do not want to hit the mortgage market so directly by dumping all the mortgages directly on it. The participations broadens the markets and makes sure you do not hurt any one segment of the market as you dispose of loans.

Mr. FINO. You do not mean the taxpayers because they will be paying for this through the nose, and you know it.

Mr. SCHULTZE. No, sir; the taxpayers, now for good and sufficient reasons as indicated by the Congress, are providing below-market rates in these loans which the Federal Government has picked up. We do not believe this bill is going to sock the taxpayers. The point is to get the Government as much as possible out of the business of holding these portfolios. We have to do it several different ways because of the nature of the problem.

Mr. FINO. My time has expired.

The CHAIRMAN. Mr. Gonzalez?

Mr. GONZALEZ. Mr. Schultze, on page 6 I believe of your testimony, at the bottom of the page, you say:

The supplementary payments in and of themselves, do not add to Federal outlays, but merely recognize exclusively the present cost now incurred by the Federal Government in such loan programs, which are not specifically identified in the budget.

What is the basis for that statement? What is the basis for that statement that this will not increase the Federal outlays?

Mr. SCHULTZE. There are two parts to this, Mr. Gonzalez.

First, let us take the case of a loan now made at 3 percent. The budget will show in any given year the making of that loan and any receipts from that loan. In order to carry that paper, however, the Treasury obviously is carrying debt floated at a much higher rate than the 3 percent. This does not show up anywhere except in the lump sum of interest on the public debt, paid by the Treasury. In that sense the Federal Government is already bearing the cost of this.

What the bill does is to provide that when you want to pool these loans, and the difference will be shown explicitly, where it is currently implicitly shown. We are carrying the cost of that now, but you do not see it anywhere.

Mr. GONZALEZ. What about the statement, though, made by somebody, I believe the minority leader, that this will increase the primary home market financing costs; in other words, will have adverse effects on that market?

Mr. SCHULTZE. Well, there are two points on this. Let us take the total participations which we plan to sell of \$4.2 billion in fiscal 1967.

First, this compares with total mortgage loans outstanding in the American economy of \$342 billion, which increased by \$30 billion in 1 year. So we are talking about relatively small amounts.

Second, the major point is the point that I made earlier to Mr. Fino. That if we attempted to get rid of all the mortgages directly by selling them individually into the market, the only buyers would be the mortgage lenders. The sales would sop up funds specifically in the mortgage lending field, whereas by selling participations which are attractive to lenders all the way across the board, you avoid this heavy immediate impact on mortgage financing.

I would conclude, with all due respect to Mr. Widnall, far from doing what his statement says it does, the bill does exactly the opposite, and enables the Government to reduce the claim on the Treasury of this big portfolio through a means which does not hit the mortgage market.

Mr. GONZALEZ. Then you would say this would have a counter inflationary effect?

Mr. SCHULTZE. It has some effect, but I think it is really neutral on that particular point.

Mr. GONZALEZ. Thank you very much.

The CHAIRMAN. Mr. Minish?

Mr. MINISH. Mr. Chairman, I ask unanimous consent to insert in the record a statement dealing with excerpts from President Eisenhower's various budget messages and recommendations from 1954 to the report of the Committee on Federal Credit Programs.

The CHAIRMAN. Without objection, so ordered.

(The information referred to follows:)

SALES OF ASSETS QUOTES

EXCERPTS FROM PRESIDENT EISENHOWER'S VARIOUS BUDGET MESSAGES

January 1954: "To encourage the substitution of private financing for Federal outlays in the areas of greatest housing need, I shall urge the Congress to authorize two new mortgage insurance programs, as well as to liberalize certain

existing programs. * * * The policy of this administration is to sell the mortgages now held by the Association as rapidly as the mortgage market permits. Assuming satisfactory market conditions, receipts from these sales and from other sources in 1955 will exceed expenditures by an estimated \$166 million. This contrasts with net expenditures of \$379 million in 1953, and \$62 million estimated for 1954."

January 1955: "Private capital will be gradually substituted for Government investment until the Government funds are fully repaid and the private owners take over responsibility for the program. The Federal National Mortgage Association will make commitments for immediate or deferred purchases of \$423 million in mortgages insured under the urban renewal, armed services, cooperative, and other especially urgent housing programs which I have specifically designated. Sales of mortgages together with repayments and other receipts, however are expected to be \$255 million greater than expenditures."

January 1956: "In addition, purchases of mortgages by the Association under its secondary market program are expected to increase in 1957 to \$290 million. Except for temporary Treasury loans, the funds required will be obtained from sale of debentures and stock to private investors, and the purchases are shown as trust expenditures, rather than budget expenditures. By the end of the fiscal year 1957, private purchases of stock will have made an excellent start toward the goal of replacing a Government activity with a private company."

January 1958: "With more realistic mortgage prices, it should be possible to restore the incentive for private financing originally intended under the Housing Act of 1954 and thus avoid the necessity for additional large amounts of new obligation authority to finance purchases of mortgages under this program and under programs for armed services and cooperative housing."

THE SUBSTITUTION OF PRIVATE FOR FEDERAL CREDIT WAS A KEY ASSUMPTION UNDERLYING THE 1961 REPORT OF THE COMMISSION ON MONEY AND CREDIT

Some of the members: Frazar B. Wilde, chairman, Connecticut General Life Insurance Co.; Joseph M. Dodge, chairman of the board, the Detroit Bank & Trust Co.; Lamar Fleming, Jr., chairman of the board, Anderson, Clayton & Co.; Gaylord A. Freeman, Jr., president, the First National Bank of Chicago; David Rockefeller, president, the Chase Manhattan Bank; and Jesse W. Tapp, chairman of the board, Bank of America, N. T. and S. A.

"The Commission believes that Government intervention to improve the effectiveness of credit markets should be designed to influence existing private financial institutions or to stimulate new private institutions rather than to establish governmental direct lending agencies."

KEY RECOMMENDATIONS FROM THE 1962 REPORT OF THE COMMITTEE ON FEDERAL CREDIT PROGRAMS

Members: Douglas Dillon, David E. Bell, Walter W. Heller, and William McC. Martin, Jr.:

"Accordingly, the Committee believes that Federal credit programs should, in the main and whenever consistent with essential program goals, encourage and supplement, rather than displace private credit.

"Government-financed credit programs should, in principle, supplement or stimulate private lending, rather than substitute for it. They should not be established or continued unless they are clearly needed. Unless the urgency of other goals makes private participation infeasible, the methods used should facilitate private financing, and thus encourage longrun achievement of program objectives with a minimum of Government aid."

REPUBLICAN MINORITY REPORT, HOUSE WAYS AND MEANS COMMITTEE REPORT, 88TH CONGRESS, 1ST SESSION (MAY 1963) ON H.R. 6009—TO PROVIDE TEMPORARY INCREASES IN THE PUBLIC DEBT LIMIT

"The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets. * * *

"For example, when the Secretary of the Treasury was before the committee on February 27, we suggested that it was incumbent upon the administration to show 'good faith' before coming to the Congress for an additional increase in borrowing authority. We pointed out that the Government held about \$30 billion in loans, many of which were readily marketable. In fact, there was a very

good market for many of these loans. Instead of increasing its offering of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in its borrowing authority.

"It was also pointed out to the Secretary of the Treasury that the Government had other assets which might be liquidated, such as the stockpile of strategic materials amounting to about \$8.7 billion.

"Our refusal to grant the administration's request last February produced 'results.' In the interim of less than 2 months the administration found that it could increase revenues from the sale of loans by an additional \$1 billion for fiscal 1963. Now, the administration estimates that it will realize \$2.082 billion—as contrasted with an original estimate of only \$0.929 billion less than 2 months ago."

The Republican members who signed the minority report were: John W. Byrnes, Howard H. Baker, Thomas B. Curtis, Victor A. Knox, James B. Utt, Jackson E. Betts, Bruce Alger, Steven B. Derounian, Herman T. Schneebeli, and Harold R. Collier.

Mr. WELTNER. Will the gentleman yield?

Mr. BARR, when we were discussing the SBA participation matter here, you and I engaged in what turned out to be a consensus, I think, on the value of increasing insured programs and diminishing loan programs.

Now, insofar as this bill takes the Government out of business as a loan holder and as a mortgage manager, I am very much in favor of it. However, I think this is only part of the problem; it is only half of the problem. To me it does not seem to be quite realistic to have Mr. Schultze say, as he says in his summary on page 8, that the Government should "play its historic role in assisting credit through risk assumption without building up unnecessarily a huge portfolio of loans." We are not meeting that goal simply by disposing of loans, unless at the same time we have changes in our programs which will convert to insurance programs.

I am wondering why it is we cannot have both of these at one time? Why cannot we consider disposing of mortgage portfolios and converting to guarantee programs?

Mr. BARR. Director Schultze has indicated that the second part of your question, converting direct loans to an insured program, is under constant scrutiny and is underway in the Farmers Home Administration.

I might add also that as we sell these assets, what we are in effect doing is substituting our guarantee for our money, so we are accomplishing the same purpose.

Mr. WELTNER. But you have to go through the long, complicated process to do it when it is so simple to put a guarantee on the back of an instrument and sign the name. You do not have to appropriate money, you do not have to borrow money in the first place, appropriate it and lend it out. I am wondering if it is the policy of the administration and the Bureau of the Budget and the Department of the Treasury, consistent with the recommendations of the Commission on Money and Credit and of the Federal Credit Programs Committee appointed by President Kennedy, to convert to insurance programs. Why do we not do so?

Mr. BARR. We should move in that direction.

Mr. WELTNER. Would there be any objection to amending this bill to seek, on the part of the appropriate agencies of the administration, a full survey and review of loan programs, with specific legislative proposals for converting loan programs to insurance programs?

Mr. BARR. Mr. Weltner, Director Schultze and I would accept this recommendation from Congress and if you would like to write it into this bill, we see no objection. We would undertake such a study and report back to the Congress.

Mr. WELTNER. I think that might be very helpful and it would be a step in the right direction.

Mr. BARR. Director Schultze would like to speak to part of your question on the insurance.

Mr. SCHULTZE. I did want to point out that in the last 2 years there have been three programs where we have either moved or have proposed to the Congress to move in the direction you have indicated. Two of them were successful and one is before the Congress and is not making a lot of progress. One is the Farmers Home Administration conversion which is already in effect and the second was the institution last year of guaranteed student loan programs rather than the direct loan program.

The third this year was the proposal to substitute a similar arrangement for the National Defense Education Act loan. That is, as I say, submitted and as far as I know it is not doing too well so far. We have moved in this direction. There are difficulties in doing it, but it is our policy to do so in cases where it is possible.

Mr. WELTNER. I thank the Under Secretary for his response to that suggestion. I will proceed with that amendment.

Mr. TODD. Will the gentleman yield?

Mr. WELTNER. I do not have the floor.

The CHAIRMAN. Mr. Halpern.

Mr. HALPERN. Secretary Barr, you quoted from the minority views on the Committee on Ways and Means. You will note that the minority in 1963 was referring to the sale of that portion of the \$30 billion in assets held by the Federal Government that were really marketable. Are you implying that the bill before us refers only to readily marketable assets? Of course it does not, and I am quite sure you do not mean it.

Mr. BARR. Mr. Halpern, I did not write that report. There were other gentlemen who wrote the report. The proposal we have here today will make these assets readily marketable. They will meet your qualification. I would have to refer you to the Ways and Means Committee, to the minority, for a precise definition on what they meant by readily marketable.

Mr. HALPERN. Why are they readily marketable?

Mr. BARR. Because we are willing to pay the market rate, and under this program this is what we are prepared to do.

Mr. HALPERN. They are Government guaranteed. That is what makes them marketable.

Mr. BARR. We either loan the money directly, in which case there is no reason for a guarantee, or we guarantee a third party who makes the loans.

Mr. HALPERN. Also, Mr. Secretary, the way the names are used here the name of Eisenhower, for example—reminds me of the technique recently employed by the State Department in the famous Eisenhower-Kennedy white paper on Vietnam. Also, Mr. Secretary, in the morning paper, the Washington Post, there is a quotation from a high Government official. It quotes this unnamed official as saying that if some method cannot be found to induce private financing of

growing social and welfare problems, the Government will be forced to assume all of the responsibilities itself.

Now, it quotes this unnamed official as saying:

In that case the Republicans would seem to be inviting a Federal credit structure wholly competitive with the private market.

Now, Mr. Secretary, if by chance you bump into that official, please tell him for the Republicans that what is most disturbing to the Republicans is that the administration's proposal would create a whole new system of subsidized financing, as this bill does.

Of course, the FNMA's participations will always be readily salable, no matter what the assets are that are pooled. With this guarantee participations can be sold on any assets. This is a device for unlimited financing of sub-market-rate loan programs. It could drive the savings and loans, banks, and insurance companies out of the home loan mortgage field. It would drive investment bankers out of the municipal financing field. So, as I say, if you see this unnamed high official, please tell him that this new system of subsidized financing is disturbing to the Republicans and actually it ought to be the concern of everybody who believes in the free enterprise system.

Mr. BARR. I will be delighted to convey your message. I am not sure who that unnamed Government official was. Mr. Schultze and I agree that it was not either of us.

Let me speak to your points, Mr. Halpern.

First of all, we just could not agree that what we are proposing here is going to wreck the savings and loan industry or that it is going to wreck the banking industry. On the contrary, I think it offers an opportunity for disposing of an enormous portfolio of loans. I do not look at this Government as a bank. I do not look at it as an insurance institution. I look at it as a Government designed to govern and meet the needs of the people. This is our objective in this legislation.

Now, as to the FNMA authority, of course they have this authority to draw on the Treasury. That underlies the guarantee that they give to the private investor. But, Mr. Halpern, I would like to point out very carefully, we are not relying on this legislation for the FNMA to draw on the Treasury as a primary backup for these securities. The primary backup is the guarantee of the agency and the agency gets its backup from the appropriating committees of the Congress, subject to annual scrutiny and review. In my opinion, this program tightens rather than loosens congressional control over very substantial sums of money.

Mr. HALPERN. The article to which I referred contains direct quotes. I am not paraphrasing this in any way and I would like to also add that I am not inflexible on this legislation, but I want the record clear and I want to be mighty sure of all its implications and as commendable as the presentations of our distinguished witnesses are, there appears to be wide differences of opinion.

My time has expired.

The CHAIRMAN. It is about 12 o'clock. We have another bill that the Treasury is very much interested in, H.R. 5305, a bill dealing with the verification and destruction of unfit currency. They need this bill through. It is an urgent measure and I just wonder if we could get unanimous consent to pass it with one amendment,

to strike out the Weltner amendment that would require 25 separate amendments to the Federal Reserve Act, since it is not directly related to this act; I understand he is agreeable to striking it out. Mr. Minish is in a position to strike it out. If the members of the committee are willing to pass it, I urge that we act now. Would there be any objection?

Mr. WIDNALL. We support that and you can expect support of our side of the aisle.

The CHAIRMAN. Suppose, Mr. Minish, you make a motion to report the bill out with that amendment.

Mr. MINISH. So moved with the amendment.

The CHAIRMAN. You report it to the House favorably with instructions to the chairman to take such action.

All in favor say "aye."

(Chorus of "ayes.")

The CHAIRMAN. All opposed say "no."

The "ayes" have it; it is unanimous.

I assume we will adjourn at 12, now.

Mr. WIDNALL. Mr. Chairman, I think we should adjourn at 12 o'clock. I hope you do not ask permission while the House is in session. I am sure we are going to have a short session.

The CHAIRMAN. We will ask the members then to come back at 2 o'clock. If the House is still in session we will ask them to come back immediately after the House is adjourned.

With that understanding we will stand in recess.

(Whereupon, at 11:58 a.m., the committee recessed, to reconvene at 2 p.m., the same day.)

AFTERNOON SESSION

Present: Representatives Patman (presiding), Barrett, Reuss, Moorhead, Gonzalez, Minish, Weltner, Hanna, Gettys, Todd, Ottinger, McGrath, Hansen, Annunzio, Rees, Widnall, Talcott, Clawson, and Mize

The CHAIRMAN. The committee will please come to order.

Mr. Halpern had just finished and then we recognized Mr. Minish and Mr. Minish used his time and now, then, it is Mr. Weltner who is next.

Mr. TALCOTT. Mr. Chairman, may I make a parliamentary inquiry?

The CHAIRMAN. Yes, sir.

Mr. TALCOTT. I would like to inquire about the interest of the Postmaster General in this committee. This is the first time in my experience that a Cabinet officer has spent the whole time auditing a committee meeting of our committee.

The Postmaster General was present at our meeting all morning. I just wondered why a Cabinet officer was interested in this bill.

The CHAIRMAN. We feel honored that he was. Of course, if he can be helpful he is ready to do it. We appreciate it.

Mr. GETTYS. If the Postmaster General is present I would respectfully urge that the Chair recognize him. He is one of the great Americans.

The CHAIRMAN. One of the greatest in the country.

Mr. GETTYS. I would like to have the opportunity to pay my respects to him.

The CHAIRMAN. We will pay our respects to him. We appreciate the fact that you called it to our attention.

Mr. TALCOTT. I am also pleased and honored that the Banking and Currency Committee would have such an important official present.

Mr. GETTYS. Mr. Chairman, Mr. Secretary, Mr. Schultze, May I ask if this whole idea is just purely a matter of selling assets to raise operating capital? Is that what it amounts to?

Mr. BARR. No, sir, it is not. As I stated in my statement, Mr. Gettys, the objective we have here is to reduce to acceptable proportions the Government's portfolio of direct loans.

Mr. Schultze and I have mentioned that we are not in the banking business. Unless we take action along this line our portfolio next year will total around \$39 billion. We think that this is unacceptable and that the Government's business is to govern and to meet the needs of the people. Consequently, our objective is to reduce these portfolios by substituting private for public capital.

Mr. GETTYS. The effect, Mr. Secretary, of the enactment of this bill will be the conversion of negotiable instruments into cash? Is that not in effect what it will do?

Mr. BARR. Yes, in effect, you are converting a direct loan, an asset, into cash. That is correct.

Mr. GETTYS. What use will be made of those funds, the cash funds that will come into the Treasury?

Mr. BARR. The cash funds will flow back into FNMA. They will be returned to the agency and the agency can dispose of the funds as the Congress determines under existing law—the law is not changed it varies from agency to agency, Mr. Gettys.

Mr. GETTYS. Is it not true that \$4 billion—\$4.7 billion—of private capital will probably be applied to the purchase?

Mr. BARR. That is correct, sir.

Mr. GETTYS. In a sense, would that not have some anti-inflationary effect upon the economy?

Mr. BARR. Mr. Gettys, I think the best answer we can give is that this legislation is approximately neutral. It might have a bit of anti-inflationary character, in that it may permit us to enter the long end of the market.

Mr. GETTYS. That is not a characteristic of the bill?

Mr. BARR. It is basically neutral legislation.

Mr. GETTYS. If enacted, if this bill becomes law, is it not true that probably the administration will not have to come to the Congress, in the light of present circumstances, for a tax increase? Would it have some effect on reducing the possibility that a tax increase may be necessary?

Mr. BARR. I would have to answer this very carefully, and I want to be completely candid, Mr. Gettys.

The President has put the tax question in the perspective of, first, the foreign policy involvement of the United States—especially in Vietnam. That is No. 1.

Secondly, the price level of this country. As we said, this bill is neutral as far as the price level consideration is concerned. It has no effect, of course, on the foreign policy involvements of the United States. So I do not believe I could candidly and honestly say it will have much effect on whether or not we ask for a tax increase, Mr. Gettys.

Would you agree, Mr. Schultze?

Mr. SCHULTZE. That is basically correct.

Mr. GETTYS. Is it not probable that any request for an increase in the debt limit this year, the amount of the increase, if such request develops would be reduced by the enactment of this bill?

Mr. BARR. Yes; more accurately it will be reduced in the following year, but the total amount will be reduced.

Mr. GETTYS. Thank you.

The CHAIRMAN. Mr. Talcott?

Mr. TALCOTT. Firstly, I would like to say to the Secretary and the Director that I am pleased that they agreed to change the word from "may" to "shall" on page 3, line 5. After all the trouble I had with you and Mr. Davis trying to get that point across I am grateful for this.

There were a couple of other minor points that I would like to discuss quickly if I may.

Mr. Schultze, you were referring to a \$30 billion amount of direct Federal loans. But it is really \$33 billion, is it not?

Mr. SCHULTZE. That is correct, sir. I used the round figure.

Mr. TALCOTT. Mr. Secretary, you referred to this business of selling assets. But we are really not selling assets, we are selling credits, are we not? Is there not an important distinction between selling assets and selling credits?

Mr. BARR. Perhaps I do not understand it. Under normal accounting methods, when you take your money and loan it to a person, you have an asset in the form of his obligation to repay.

Mr. TALCOTT. It is like when selling your car you are dealing with the pink slip, but not the real ownership of the car.

Mr. BARR. You have some equity, I assume. I am not sure what you mean by the pink slip, Mr. Talcott.

Mr. TALCOTT. It is an owner's certificate.

Mr. BARR. It is some claim on an equity or else I assume you would not loan the money. In that respect, I would class it as an asset. Accounting distinctions can be confusing. These are assets in my opinion.

Mr. TALCOTT. I think there is some distinction. One other little comment:

You suggested that your intentions were good and that you were still struggling with some language here. I think we all know that the streets and corridors in Washington as well as the roads to another well known place, are paved with good intentions.

Mr. BARR. Mr. Schultze has accepted your language on the other point, too. This is on the "may" or "shall".

Mr. TALCOTT. You said you are going to confer with us on the other point. Have you come to agreement on that?

Mr. SCHULTZE. What Mr. Widnall was after was the change—

Mr. TALCOTT. Was an "and" instead of an "or".

Mr. SCHULTZE. We agree in substance but that language will not do it. If I may explain.

As I understand what Mr. Widnall was getting at, he wanted to make all participations, whether or not they carried submarket interest rates subject to the same type of appropriation authorization now provided only for the submarket interest-rate participations. We agreed to that. However, putting the word "and" in will not accomplish that purpose. We have some suggested language that will accomplish the purpose. That change in the "and" will not do it.

Mr. TALCOTT. I am pleased to hear that, also.

Mr. SCHULTZE. I must confess we had to confer and converse and discuss this pretty hurriedly but to the best of our knowledge the general approach is agreeable.

Mr. TALCOTT. You are still willing to confer with us on the language that will be necessary.

Mr. SCHULTZE. That is correct. I think we have some suggested language.

Mr. TALCOTT. Mr. Secretary, when the committee was considering the SBA participation bill many members were disturbed that the prospectus for the sale of SBA subordinated debentures only stated that the debentures were guaranteed by SBA. They were disturbed that it had not been made clear that the full faith and credit of the United States was back of the guarantee.

I have in my hand the prospectus for the last offering of FNMA participation certificates in the amount of \$410 million. It is dated March 16, 1966. In this six-page prospectus there is only one paragraph which is in italic. Let me read it to you.

Timely payment of principal of and interest on the participation certificates is guaranteed by the Federal National Mortgage Association, a corporate instrumentality of the United States. (See letter of the Secretary of the Treasury appearing later in this prospectus regarding availability of funds for such guaranty.) The participation certificates are not obligations of and are not guaranteed by the United States.

I direct your attention to the last sentence which states—

The participation certificates are not obligations of and are not guaranteed by the United States.

Since FNMA is to sell participation certificates for all agency participation sales programs, I presume that any such prospectus in the future will also state "the participation certificates are not obligations of and are not guaranteed by the United States."

Mr. BARR. That is correct.

Mr. TALCOTT. Can you tell us just what is the nature of this guarantee?

Mr. BARR. The nature of the guarantee—you are speaking of the participation sales guarantee?

As I mentioned—

Mr. TALCOTT. Excuse me one moment. A very strict time limit has been imposed here. I have been notified my time is up.

Can he finish his answer now?

The CHAIRMAN. Certainly.

Mr. BARR. Fine. The nature of the guarantee follows two routes. The agency under this new language "shall" guarantee the certificates. What right, or what authority, does the agency have to live up to this language, it "shall" guarantee? If it is a submarket loan, it gets that right and authority so far as the interest deficiency is concerned, through the Appropriations Committee. Beyond that, it has the right to guarantee interest and principal from funds that are authorized and appropriated for the program. That is where the agency guarantee flows from.

In addition, FNMA, under its corporate powers, has, as you know under section 306(d), the right to draw on the U.S. Treasury to meet timely payments of interest and principal. We do not anticipate that we will need to rely on the FNMA draw on the Treasury. The way

we conceive of this legislation is that the agency and in turn the Appropriations Committees, will supply the guarantee behind these securities.

Mr. TALCOTT. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Todd and then Mr. Ottinger.

Mr. TODD. Thank you, Mr. Chairman.

Mr. SCHULTZE, I would like to expand a little on Mr. Getty's question. The income accounts budget is a budget which affects the fiscal policy of the Government, is it not?

Mr. SCHULTZE. That is correct.

Mr. TODD. Is that not the one, whether it is balanced or out of balance would determine whether or not the Federal budget is deflationary or inflationary in terms of price level?

Mr. SCHULTZE. It measures most closely, economists think, the impact of the budget on the economy, that is correct.

Mr. TODD. So from the standpoint of the fiscal policy it should be the budget we are looking at?

Mr. SCHULTZE. Correct.

Mr. TODD. Can you advise the committee whether or not in your opinion this legislation will affect the income accounts budget?

Mr. SCHULTZE. This legislation will not affect the national income accounts budget in and of itself. In effect, what it will do, however, is put the regular administrative budget on a basis which is much closer to the national income accounts—not exactly, but essentially it does that.

The effect of this is to make the budget a much more accurate measure of the impact of the Federal Government's fiscal actions on the economy.

Mr. TODD. I see.

Mr. SCHULTZE. This is the essence of it.

Mr. TODD. The legislation in and of itself does not affect the need of the Congress to watch its expenditures in this particular area because of the heavy impact of Vietnam on our total impact?

Mr. SCHULTZE. It makes the budget presented to the Congress, the one that Congress debates, a more accurate measure of the impact.

Mr. TODD. Then I understand how, in relation to this it would have little effect or lack of need for tax increase.

In this connection, I simply would like to say that for some time I have been advocating in my own district a tax increase, and I believe that by and large individuals believe that this is a wise policy action. I do not think it is necessarily politically unpopular and I very much commend the President for his statement yesterday that we should look hard at this as an alternative to having prices continuing up. I have been more concerned about prices rising than others.

In this connection, it may be a little beside the point—I hope that your Bureau would take a good look at the removal of the investment tax credit against income tax of corporations because I think this does have severe inflationary impact. Since I suppose a fair amount of the debates concerning this legislation will be whether it is inflationary or anti-inflationary I think that is a valid reason for bringing up tax matters at the time.

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. Mr. Ottinger.

Mr. OTTINGER. Mr. Chairman, Mr. Secretary, Mr. Schultze. First of all, I would like to commend you for giving some very excellent testimony on this bill.

We are in a time of exceedingly tight money in terms of the private sector, of soaring interest rates. If we take an additional \$4.7 billion from the private sector do you anticipate that this would have any drastic effect either on making it more difficult for the homebuilders and so forth to get the money they need, and on interest rates?

Mr. BARR. Mr. Ottinger, as you can see from the fiscal year 1967 budget, if we are to maintain the program level that has been envisaged in the budget, we would either raise the money either through this route or through direct Treasury borrowing—the impact would be the same on the money markets.

The only way we can reduce the pressures on the money market would be to raise taxes, as Mr. Todd suggested, or, alternatively, to cut the programs.

Mr. OTTINGER. Would you like to comment on why this route is selected and on what kind of effect it will have in interest rates?

Mr. BARR. As I said, on interest rates it will be neutral.

Mr. OTTINGER. What do you anticipate the effect will be of either one of those alternatives?

Mr. BARR. If we raise taxes or cut the programs pressure would be removed from the money market and there would be a tendency for the markets to perhaps become a little easier and rates to decline. If we take the participation route or borrow through the Treasury, the impact is the same. If you want to reduce pressures on the money market, you have to raise taxes or cut the programs.

Mr. OTTINGER. Why was this alternative chosen?

Mr. BARR. It was chosen at this time because it was obvious our portfolios were getting, in my opinion, unacceptably high.

Mr. OTTINGER. There are a couple of technical provisions that I do not clearly understand.

On page 2, line 15, subparagraph (4), it says:

Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of the laws administered by the Securities and Exchange Commission.

What is the purpose of that?

Mr. BARR. The purpose of that is that the SEC was not designed to regulate this type of instrument. It was designed as a protection in private offerings. All these programs are scrutinized by the Congress, they are in effect public programs.

Mr. OTTINGER. This does not create anything different from what presently exists?

Mr. BARR. Not at all.

Mr. OTTINGER. The provision on the next page that the trust or trusts shall be exempt from all taxation. Is that going to make anything exempt from taxation?

Mr. BARR. That is a peculiar provision. I had trouble with that when I looked at it myself. It works this way. If you buy a participation in a pool of assets, which might contain tax exempt obligations—some of the college housing loans are tax exempt—the tax

exemption privilege will not flow through to you as an investor in the participation pool. You will be taxed under the Federal tax system. You will owe Federal taxes on the income you get from it.

Mr. OTTINGER. If you have a mixed bag of tax exempt and non-exempt obligations involved in a single participation, this does not extend tax exemption where it did not exist?

Mr. BARR. In other words, the purchaser cannot buy tax exemption via the participation route. He will pay Federal taxes on all income from this source.

Mr. OTTINGER. What about in terms of State taxes?

Mr. BARR. All these obligations are subject to State taxes.

Mr. OTTINGER. They are also subject to State taxes?

Mr. BARR. Yes.

Mr. OTTINGER. I have no further questions.

The CHAIRMAN. Mr. Clawson?

Mr. CLAWSON. Thank you, Mr. Chairman.

Mr. Barr, you have mentioned two alternatives in connection with the passage of this bill, the tax increase or cut in programs.

Would a third alternative be, to ask for an increase in the statutory interest rate of $4\frac{1}{4}$ percent which our chairman is vigorously opposed to? Would that be a third alternative?

Mr. BARR. No, sir, I do not think so because we could raise this money within the 5-year maturity area.

Mr. CLAWSON. What kind of pressure would build up then?

Mr. BARR. It would put more pressure on the short end of the market, the under-5-year area.

Mr. CLAWSON. I have had some personal difficulty with my limited knowledge of this entire bill, about reconciling the distinction between the public and the private financing discussed here. Both FNMA and Treasury Department will be financing in the same private capital markets, will they not? Do not Treasury Department and FNMA finance in the same capital markets?

Mr. BARR. Yes, they do.

Mr. CLAWSON. How can we reconcile the distinction that has been drawn during the course of this hearing between the private and public clients?

Mr. BARR. What we are referring to here is that we now have a portfolio of approximately \$33 billion in loans. Roughly, since World War II, we have raised 95 percent of the money in taxes and 5 percent by borrowing. As I understand the distinction here, when we make a direct loan and hold it, we are really using the money paid in by taxpayers or money that we have raised by borrowing. That is obviously public funds.

When we sell these securities, however, we are obviously involving private market. We are not using the taxpayer's dollar. We are not using money we have borrowed. We are pulling in the private money. That is the distinction.

Mr. CLAWSON. In connection with the sales that you have mentioned the language used in the bill is, "beneficial interest and participation"—this term is mentioned some 10 times in the bill. What does "beneficial interest" mean as you have used it in this bill? How do you define that?

Mr. BARR. I am advised by our legal counsel that it is another way of saying participation. It is synonymous.

Mr. CLAWSON. I see. It is a synonymous term.

Mr. BARR. Yes, sir.

Mr. CLAWSON. Are these beneficial interests and participations instruments of sale or are they debt instruments? Can we draw a distinction here?

Mr. BARR. I am advised here again that a beneficial interest usually relates to a trust.

Mr. HANNA. Will the gentleman yield? I think Mr. Clawson in all circumstances in which you have a pool you must create an instrument which is an indicia of your ownership of the pool and that instrument is really what we are talking about. In other words, the pool itself does not move. It remains in the place where it was.

Mr. CLAWSON. Thank you very much.

Now, I would like to know at this point about the ownership of this instrument. Is there actually a passing of title to the private investor?

Mr. BARR. Title does not pass to the private investor. The beneficial interest—

Mr. CLAWSON. Then what is the sale concept?

Mr. BARR. He is purchasing a beneficial interest in a pool of assets.

Mr. CLAWSON. Without a passage of title?

Mr. BARR. That is correct, if you are talking about the ultimate investor. But title to the assets in the pool does pass to the trustee, and the investor purchases an individuated interest in the pool.

Mr. CLAWSON. That is a beneficial interest then in what, the FNMA and its power to borrow on the Treasury?

Mr. BARR. It is beneficial interest in a group of assets. It might be college housing, might be mortgages, might be Small Business Administration loans. It is in a pool of assets guaranteed by the agency backed up by an appropriation of the Congress.

Mr. CLAWSON. And backed up by the Treasury of course, eventually, is it not?

Mr. BARR. Backed up in the ultimate by the Congress, sir. The Treasury has nothing but the authority of Congress.

Mr. CLAWSON. The investor would interpret that the Federal Government is backing this "beneficial interest and participation"?

Mr. BARR. That is correct.

Mr. CLAWSON. And they are backing it—the same way as the public looks upon the insurance of a bank deposit by the FDIC as a Government guarantee?

Mr. BARR. That is correct.

Mr. CLAWSON. I have no further questions.

The CHAIRMAN. Mr. McGrath?

Mr. McGRATH. I, too, want to commend the Secretary and Director in their candid and clear testimony here today.

I have a few questions.

When FNMA would prepare to sell participations, would it decide what the mix would be on the kind of obligations represented and what the participations would be?

Mr. SCHULTZE. This would be a combination of Treasury, FNMA, possibly the agency involved. But I would presume that at all stages, FNMA and the Treasury would work closely together in making specific determinations as to the proper mix.

Mr. McGRATH. As I understand it, the bill as we have it now would give the VA Administrator an additional mechanism by which to sell VA obligations.

Mr. SCHULTZE. This simply preserves—section 6 preserves his existing rights.

Mr. McGRATH. He could use the existing system or he could use the new system.

Mr. SCHULTZE. Either one. He has in the past and we intend in the future to sell through FNMA, but we thought it best to preserve the right that he now has.

Mr. McGRATH. That is all I have.

The CHAIRMAN. Mr. Hansen?

Mr. HANSEN. Thank you, Mr. Chairman.

Mr. Schultze, on page 6 of your testimony you start off with the Department of Agriculture and mention the Farmers Home Administration. Does that mean that there will be no effect on the REA items?

Mr. SCHULTZE. That is correct. The Secretary of Agriculture submitted to the Congress, I think, about a week ago, a separate bill relating to REA. It is not the same process at all.

Mr. HANSEN. There is no intent then at all to inject the REA or REC items that are held by the Rural Electrification Administration?

Mr. SCHULTZE. You are quite correct.

Mr. HANSEN. Now, following what Mr. McGrath touched on, wherein do these new certificates—I assume from what has been said that there would be a new type of instrument created for sale to the public. Wherein do they differ from what FNMA has apparently been marketing?

Mr. SCHULTZE. I think as a matter of fact insofar as the market is concerned, these are really the same kind of certificates that have already been issued. The real difference is that under existing statute there is a limitation on the agencies that can participate, and assets that can be put into the pool. This bill before you extends the basic concept to other programs, other assets, and specifically makes provision for the pooling of assets which are yielding below-market interest rates. Up to now FNMA has only been selling participations in assets whose interest payments cover the amount that they have to pay to the purchaser. This bill extends the technique to other assets and other agencies.

Mr. HANSEN. In other words, there would not be any noticeable difference as far as the purchaser of the securities are concerned.

Mr. SCHULTZE. That is quite correct.

Mr. HANSEN. Now, can you tell us approximately what the incidence of bank purchases of FNMA securities have been in the past as against individual investors?

Mr. SCHULTZE. I think we have a rundown somewhere on it. If you will give me just a moment, Mr. Hansen.

Mr. HANSEN. Yes.

Mr. SCHULTZE. I have separate figures for the different pools—FNMA has sold several issues.

I do not have a sum.

Mr. HANSEN. The percentages.

Mr. SCHULTZE. On the series A, which was the first one, commercial banks have 17 percent; mutual savings banks have 8 percent; life

insurance companies, 1 percent; fire, casualty, and marine companies, 6 percent; savings and loans, 6 percent; corporations, out of general funds, 1 percent and pension funds another 1 percent; State and local governments have about 11 percent—most of them in their pension funds.

Private individuals have six-tenths of a percent and 48 percent is classified under all other investors, but a very large part of that is bank nominees. I would presume trust funds and the like. I rounded these off.

Now, this percentage varies from issue to issue, but I think one interesting point is that as the issues have gone on, State and local pension funds have picked up a larger amount of the share. For example, in the third issue, they have about 20 percent.

Mr. HANSEN. This next point, Mr. Barr, relates to the question or suggestion of Mr. Gettys a minute ago.

As one who has had a little experience in the E-bond program, I would say one of the important points used in sponsoring the sale of that security to the American public was the fact that the sale of E bonds to individuals would have a deflationary effect in time of war and during other periods.

The point that I would like to see cleared up, if possible, for my own thinking, is the question of the same factor being applied to this type of security. It would strike me that if 48 percent of this security is going into the kind of investment portfolios that bury it and do not create new money with it, that this would have a beneficial effect as far as our inflationary situation is concerned. Do you have some comment on it? My time is up, but you may, I suppose, answer the question.

Mr. BARR. Could we submit that for the record? This is pretty tricky. There is a distinction here between the E-bond program and this program. I would like to be accurate in our presentation.

(The information requested follows:)

It is expected that the enlarged sale of participation certificates, which would be authorized by H.R. 14544, will have essentially neutral economic effects. Economists generally are agreed that the national income and product account budget provides the most useful guide regarding the effects of Federal fiscal policy. The participation sales will not affect the Federal Government deficit in this account, which is expected to be \$500 million in fiscal 1967 compared to \$2.2 billion in fiscal 1966. In addition, since the purchasers of the participation certificates, on the basis of March 31, 1966, ownership data, are generally also the important investors in Treasury obligations, it can be expected that the monetary effects of the sale will also be essentially neutral. That is, the sale of participation certificates will reduce the amount of Treasury securities which would be otherwise outstanding, so that the primary effect will be a shift in the portfolios of these investors. There may be a slight restrictive effect, however, because some of the participation certificates will be sold in the long-term market, but this will be marginal. The broad appeal of participation certificates, consequently, has the result of minimizing any restrictive effect of the sales, and, in particular, avoids the possibility of placing undue strain on any segment of the capital market, such as the mortgage financing, which the direct sale of a large volume of assets having a narrower appeal might entail.

Mr. HANSEN. Thank you very much.

The CHAIRMAN. Mr. Mize?

Mr. MIZE. Thank you, Mr. Chairman.

What would be the size or denomination of these participation certificates?

Mr. BARR. In the last issue, Mr. Mize, the denominations were from \$5,000, as a minimum, up to \$1 million.

Mr. MIZE. Why is there any limitation on who can buy these?

Mr. BARR. There is none.

Mr. MIZE. Assuming we do want to get this kind—get these assets in your portfolio out in the private sector and that is the main reason you say you are proponents of this program, is not this a bad time to be selling this paper in view of the very high cost of money? Why cannot we put it off for a couple of years until the interest rates have gone down?

Mr. BARR. I suppose, Mr. Mize, that you could make the same point in the case of borrowing Treasury money. The only alternatives are to cut programs or to increase taxes.

Mr. MIZE. Excuse me. When you say "cut programs" you mean all programs?

Do you personally anticipate a lowering of interest rates in general during the next 6 or 8 months?

Mr. BARR. There is a long tradition in the Treasury, we would not predict what would happen to interest rates tomorrow. So, if you will forgive me I will maintain the tradition running back to Alexander Hamilton.

Mr. MIZE. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Annunzio?

Mr. ANNUNZIO. I have no questions, but I want to make a statement commending the Under Secretary and the Director of the Budget for their clear, concise statement that goes to the root of the problem before us today; namely, (1) who can participate in buying these bonds; (2) who assumes the loan risks; and (3) which are the participating Federal agencies. I am happy to support the legislation and I urge my colleagues on the Banking and Currency Committee to take action and to approve as fast as they can the legislation before us today.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. I want to go again to a point that has been brought up several times in some of the earlier questions which have been asked. It was intimated that these would take money away from the existing supply of money which might be available for construction, or plant expansion, or whatever.

Is it not true, for example, that if you issue \$4.7 billion worth of these certificates in fiscal year 1967, it would not take away from the money available for the private economy, because it is money which is going to be dead money anyway, whether it is short-term Treasury or whatever it may be?

Mr. BARR. That is true, sir.

Mr. REUSS. So it does not affect the available money market; available primarily for construction.

Mr. BARR. That is correct.

Mr. REUSS. We had hearings a couple of weeks ago in which we were talking about section 302 debentures which sold at $5\frac{3}{4}$ net on to 6 percent. Let us assume that this act, H.R. 14544, had been the law, and that you would be pooling these SBA debentures under this new system. Can you say that there would have been easier sale, and that the interest rates might have been lower?

Mr. BARR. Unquestionably. As you mentioned, Mr. Reuss, the SBA debentures went off at $5\frac{3}{4}$ plus a quarter point. The last issue of FNMA went off at 5.39 percent, so there is a three-eighths difference

between the rate on the SBA debenture and the rate that would have been paid if sold as part of a direct sale in a participation. The difference is 36 basis points, or nearly three-eighths percent.

If you assume the whole \$120 million was sold, we could have done this transaction \$450,000 cheaper under the participation route than we could have under the direct sale route.

Mr. REUSS. So that when you start looking at everything that is going to be financed under \$4.7 billion next year, you can say the actual savings will be quite a few million dollars?

Mr. BARR. When compared with the direct sale of the agencies into the markets themselves. Yes, sir, I would say so.

Mr. REUSS. It also gives you a lot better chance to look at these higher markets from a centralized position rather than having each agency go into the market. It allows you to combine short-, long-, and medium-term debt.

Mr. BARR. That is a very important point. Literally, in this last few months, people were knocking each other down trying to get through the door into the market and it became extremely difficult. Coordination is an important point.

Mr. REUSS. In terms of your SBA debentures, it would allow you to take a bit more sophisticated look at the market in terms of what is going to happen 5 or 6 months or a year ahead, rather than saying we have to go now at this time.

Thank you.

The CHAIRMAN. All right, let us see. Anybody else? Mr. Hanna has not asked any questions. Mr. Hanna?

Mr. HANNA. I am sorry I was not here when my turn came and I appreciate your giving me just a few minutes.

One particular question that I wanted to ask about FNMA. They are going to be the major functioning force here and I am concerned that FNMA recently announced that they would not be a secondary market for mortgages over \$15,000. That announcement must have come for some reason. Can you tell me what was behind that move and does that in any way reflect the problems for this program?

Mr. SCHULTZE. Mr. Hanna, I am not sure I can give you a full answer. Of course FNMA would be in a much better position to answer your question.

My point is that I do not want to substitute my expertise for theirs. My understanding of the situation is as follows: the FNMA secondary market, of course, is making a secondary market in terms of buying and selling. I do not know the exact numbers, but, as I recall, FNMA estimated that secondary market mortgage purchases during this year would exceed \$2 billion. This would, in terms of accumulation in any one year, seem to the housing people to be too much. As one means of holding down the flow of credit into the market during this kind of period, where we do have problems with possible inflationary situations, they decided to impose a \$15,000 limit.

In other words, they were not in a situation here of balancing off sales and purchases, but since purchases were very heavy this was an attempt to slow that down. It was not an attempt to reverse it.

Mr. HANNA. That should be made clear because there is going to be unsympathetic feeling of those in the West who have a situation in which the mortgages are all at \$15,000 or above, so they took the greatest load and they are going to be considerably upset and left.

It would have been different if it had been done across the United States with the same effect. The effect would come harder and harder on that area of the country which had the higher mortgages.

Mr. SCHULTZE. I am not sure I am right on this, but I would also think the other side of it is, even with this limit, they will be buying this fiscal year, probably in the neighborhood of \$1.8 billion in mortgages. I think much of that probably will go to the west coast, given the nature of the mortgage market. I do not think the net effect is one sided.

Mr. HANNA. I wanted to make clear, Mr. Chairman, while I have the mike, that even though we have been bandying around a \$4.2 and \$4.7 billion figure, this legislation has the total effect of \$2.85 billion.

Mr. BARR. That is correct.

Mr. HANNA. That had better be clear in there, so this does not get mixed up in the presentations on the floor. As I understand it, this \$2.85 billion will cover programs in five agencies: Farmers Home Administration, HEW, college housing, CFA, and SBA.

Mr. BARR. That is correct.

Mr. HANNA. That will be the additives to what we are already doing. As I understand questions that have been raised by some of the members—is not in a sense the participations that will come out of the pool, about the same thing that a stock is to indicate an ownership in the company? The ownership comes in the paper. I own a piece of stock, I can deal in that. I imagine there will be a market for dealing in these participations, just as there is for stocks and bonds?

Mr. BARR. That is correct.

Mr. HANNA. That is exactly the kind of paper we are talking about, is that right?

Mr. BARR. That is right.

Mr. HANNA. I think we ought to know, Mr. Chairman—I really think that we got to distinguish between the criticism we will get from the minority that is directed toward the majority's problem which is our debt management. And we are going to have the debt ceiling before us. What is the expense in the debt ceiling that we anticipate this year, Mr. Schultze?

Mr. SCHULTZE. I really think Mr. Barr is the best to answer that. I do not think we have an answer at the moment.

Mr. BARR. We do not have a precise answer. I can give you a theory that has worked rather consistently over the past few years. I am not saying that we will stick to the theory and even if we propose it that the Congress would approve it. The theory has been that the deficit of one year indicates the debt limit increase for the following year. In other words, if our deficit this year is in the neighborhood of \$6 billion, it would indicate that we would have to raise the debt limit for fiscal year 1967 by \$6 billion. That is the theoretical estimate.

Mr. HANNA. I imagine that if we did not get this program through it may be the debt limit may be more.

Mr. BARR. That is possible, but there is always a year's lag.

Mr. HANNA. Is not this a program to change the United States from being a holder of paper assets to an operator of a revolving fund?

Mr. BARR. That is correct. That is the real objective.

Mr. HANNA. I appreciate the time.

The CHAIRMAN. The Chair needs the direction of the committee at this point. Today is Thursday, it is 3 o'clock. We can either go

ahead and finish this bill this afternoon or if not this afternoon, tomorrow, or we could come back here next week and start again.

What is the wish of the committee?

Mr. BARRETT. Mr. Chairman, I move we terminate these public hearings and go into executive session in order that we may report this bill out this afternoon.

Mr. TALCOTT. Just a minute; we haven't even had a chance to ask some questions.

Mr. REUSS. I second it.

The CHAIRMAN. Mr. Widnall?

Mr. WIDNALL. I would like to speak to the question. I think we have a second.

Mr. Chairman, this is an extremely important measure. It was only introduced on yesterday as I recall and the administration sent up its message on it within a matter of hours.

We have known such a proposal was in the offing. But it seems to me it has a tremendous impact on the economy and on the way of doing business with respect to the mortgage market and it can have a very material effect upon those who are engaged in mortgage loans throughout the United States and many segments of our economy.

I cannot understand why there is such a pressure for immediate action so that it does not seem that we are going to invite in and call in those who should testify with respect to the impact, possible impact on their own particular industries, how it would affect the private economy, what it would do with respect to the availability of assets for purchase of one line of mortgages or one line of Government securities or participations such as these are.

I cannot fathom any real reason for immediate action on this. I do think in a matter that is really of momentous concern to the administration and to the country, that warrants—that people will be suspicious of us. And I think the committee itself is entitled to a written notice that there is going to be an executive session on this bill. I do not think there should be this type of hurry up, where people have already left, because there is no business on the House floor and there is no projected business as far as I know for next week except for some humane bills that have to do with dogs and truly, it certainly is not a propitious time to be considering this.

I personally strongly oppose having the executive session at this time and would urge upon the majority that in their wisdom they invite some others in to testify on the bill and postpone final consideration of the bill until some other witnesses have had the opportunity to testify. There has been no public notice of the fact that hearings are going to wind up today, to the best of my knowledge. I do not think the press had any knowledge of this. I do not think that others who might be interested have any knowledge of this.

Mr. BARRETT. Will the gentleman yield?

Mr. WIDNALL. Yes; I yield.

Mr. BARRETT. If we continue the hearings, would there be anything the gentlemen from the Treasury Department could add or detract to make this bill more palatable?

Mr. BARR. As far as the administration is concerned, Mr. Barrett, we have nothing more to add.

Mr. SCHULTZE. I agree.

Mr. BARRETT. If the committee takes this action is there a possibility we would prevent a tax increase?

Mr. BARR. I want to insist on this, Mr. Barrett—it is a rather neutral bill. We are after the disposal of assets in this bill.

Mr. BARRETT. Of course, we did have this in the Eisenhower administration. This is not new to this committee.

Mr. BARR. That is correct.

Mr. BARRETT. I do not see why we cannot conclude the public hearings and go into executive session.

The CHAIRMAN. I would like to make one statement in answer to Mr. Widnall about the suddenness of this.

During a preceding administration back during the Great Depression, I knew of bills that came up in mimeographed form and were presented on the floor immediately just like that. I think you will find the great RFC bill was passed in 1932 that way.

Mr. WIDNALL. Mr. Chairman, are you saying we are in the midst of a great depression and we have to act immediately?

The CHAIRMAN. No, but I am just referring to the administration when the Great Depression was on.

Mr. TALCOTT. But we do not have an emergency like that now, or do we?

The CHAIRMAN. I am just referring to another administration. Not only that, but in subsequent administrations both under Republicans and Democrats, bills have been acted upon quickly. We could stay here a month, but to my mind, we would not have anything new. We all know what the score is on this and a fight on this bill will be on the floor of the House. We all know that. I hope we can vote and do what the majority says.

Mr. ANNUNZIO. I move the previous question.

Mr. WIDNALL. Last week we had before us the SBA participation bill. We had a number of days of hearings. This has been junked after a number of days of hearings. Now you ask approval of this overall participation bill in just 1 day. This bill is supposed to replace public with private credit. Now, this has been said not once, but a number of times. We have not had one single private witness before this committee and it is incredible to me that you are expecting this committee to vote on this proposition involving billions of dollars without having one single witness from private industry. I strongly oppose this action.

The CHAIRMAN. Mr. Reuss?

Mr. REUSS. I ask for a vote.

Mr. ANNUNZIO. I moved the previous question.

Mr. TALCOTT. Just before, when I was questioning the witness, I was interrupted right at the middle of a question. I have a couple of more questions.

The CHAIRMAN. You had as much time as the rest of us.

Mr. TALCOTT. I had only 5 minutes.

The CHAIRMAN. That is right. The gentleman moved the previous question. We cannot yield to Mr. Talcott. There is a question of whether we will get through this afternoon or not.

Mr. TALCOTT. Mr. Chairman, a parliamentary inquiry, of the administration witnesses here today; do they have objection to answering my questions?

The CHAIRMAN. We are not taking up any more questions. There is a motion and this takes precedence. That ends the argument. We are just yielding to you.

Mr. TALCOTT. I feel I am being pressured, not yielded to.

The CHAIRMAN. Submit them for the record and they will answer them in the transcript. You will be glad to answer any questions, would you not, gentlemen?

Mr. BARR. Yes.

The CHAIRMAN. There is a motion for the question.

Those in favor of the previous question make known by saying "aye."

(Chorus of "ayes.")

The CHAIRMAN. Opposed?

(Chorus of "noes.")

The CHAIRMAN. The "ayes" appear to have it.

The question is on the previous question.

Mr. TALCOTT. I ask for a record vote.

The CHAIRMAN. All in favor of the motion?

(Chorus of "ayes.")

The CHAIRMAN. Opposed?

(Chorus of "noes.")

The CHAIRMAN. The "ayes" have it.

We will have an executive session.

(Whereupon, at 3:10 p.m. the committee proceeded into executive session.)



TO PROMOTE PRIVATE FINANCING OF CREDIT NEEDS AND TO AMEND THE SMALL BUSINESS ACT

HEARING BEFORE THE COMMITTEE ON RULES HOUSE OF REPRESENTATIVES EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 14544

TO PROMOTE PRIVATE FINANCING OF CREDIT NEEDS
AND TO PROVIDE FOR AN EFFICIENT AND ORDERLY
METHOD OF LIQUIDATING FINANCIAL ASSETS HELD BY
FEDERAL CREDIT AGENCIES, AND FOR OTHER PURPOSES

AND

S. 2499

TO AMEND THE SMALL BUSINESS ACT TO AUTHORIZE
ISSUANCE AND SALE OF PARTICIPATION INTERESTS
BASED ON CERTAIN POOLS OF LOANS HELD BY THE
SMALL BUSINESS ADMINISTRATION, AND FOR OTHER
PURPOSES

MAY 10, 1966

Printed for the use of the Committee on Rules

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1. The first part of the report is a general description of the project and its objectives. It includes a brief history of the project and a statement of the problem to be solved. The second part is a description of the methods used in the study. This includes a description of the experimental design, the data collection methods, and the statistical methods used to analyze the data. The third part is a description of the results of the study. This includes a description of the data, the results of the statistical analysis, and a discussion of the implications of the results. The fourth part is a conclusion and a list of references.

TO PROMOTE PRIVATE FINANCING OF CREDIT NEEDS AND TO AMEND THE SMALL BUSINESS ACT

TUESDAY, MAY 10, 1966

HOUSE OF REPRESENTATIVES,
COMMITTEE ON RULES,
Washington, D.C.

The committee met, pursuant to recess, at 10:45 a.m., in room H-313, the Capitol, Hon. Howard W. Smith (chairman) presiding.

Present: Representatives Smith of Virginia (presiding), Madden, Delaney, Trimble, Bolling, O'Neill, Sisk, Young, Pepper, Smith of California, Anderson, Martin of Nebraska, and Quillen.

The CHAIRMAN. The committee will be in order.

We will resume consideration of the rule on H.R. 14544, which is the Sales Participation Act.

Mr. Widnall, if you have anything further, we will be glad to hear from you.

STATEMENT OF HON. WILLIAM B. WIDNALL, A MEMBER IN CONGRESS FROM THE SEVENTH CONGRESSIONAL DISTRICT OF NEW JERSEY—Resumed

Mr. WIDNALL. Mr. Chairman, to substantiate the line of testimony I have given, I think there is a very interesting article in the Wall Street Journal this morning:

FNMA \$400 million debentures priced at discount to yield record 5.5 percent a year.

The 12-month, 19-day securities are being offered at a discount price of \$99.95 per hundred dollars of face value, thus raising the yield to investors above the stated face rate of 5.45 percent. The previous record yield was on February's \$250 million issue of 14-month debentures; with a face rate of 5.30 percent, they were priced to yield 5.38 percent.

The CHAIRMAN. Does that relate to bills that are being offered now under the present law?

Mr. WIDNALL. Under the present law.

The CHAIRMAN. Under the present law under FHA, FNMA?

Mr. WIDNALL. Yes, the secondary market of FNMA and their ability to sell debentures at the present time and the proceeds being used to repay Treasury borrowing and finance the FHA's secondary market business. This is different from the participation sales program, where it is not going back to repay borrowings from the U.S. Treasury.

Mr. DELANEY. That is the reason there is no mortgage. They get such a high rate on that that they don't have to go out and do the paper work or anything else on mortgage money and the premium on buying

these is very, very low. They just deal with the Government, give the guarantee and no paper work. No wonder we are short of funds.

Mr. WIDNALL. That is all, Mr. Chairman.

The CHAIRMAN. Any questions?

Mr. Smith?

Mr. SMITH of California. No questions.

The CHAIRMAN. I do not know whether anybody had questioned you or not. Were you questioned before?

Mr. WIDNALL. Oh, yes.

The CHAIRMAN. Thank you, Mr. Widnall. There are no other questions.

Mr. MARTIN of Nebraska. Could I ask him one question?

The CHAIRMAN. Yes.

Mr. MARTIN of Nebraska. I am still confused over the testimony that we had on Thursday, when Mr. Patman was testifying. I believe, Bill, you also were. Then the Under Secretary of the Treasury testified in regard to questions propounded several times during the day. In regard to the amount of money that an agency could loan out, let's take the SBA. They have a total authorization of approximately \$1.8 billion, as I understand. All right, let's assume that they have loaned up to their total authorization. They take \$500 million of their loans, put them into one of these pools, and sell them. Then they get back this \$500 million.

Now, we had testimony from the Under Secretary that they could not then loan out that money because they were already up to their limit on authorization. But we also had some answers in the morning that because of some language, I believe on page 4 of this bill, between line 11 and line 15, the interpretation could be made that SBA could loan out the \$500 million they had received on the sale of participations.

Now, what, Bill, is your answer to that?

Mr. WIDNALL. I think there is a complete conflict within the bill at the present time. At one place, the administration is right in saying it could not be loaned out, but there are two other places within the bill that say, according to my own interpretation, that they can. Until this is cleared up, we have a complete conflict and still have the authority to have a sort of revolving fund within the various agencies.

Now, I am just as confused as you are about it. I think that my interpretation of the first two sections—do you have that? It reads, starting on page 4 of the bill, line 9, beginning:

Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future selling of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust.

Now, I interpret that to say that it can come back, it can be reloaned without obtaining additional authorization from the appropriations committee.

Mr. MARTIN of Nebraska. In other words, regardless of what the Congress might authorize to an agency, if that interpretation is correct, it can continue, under this revolving fund, to loan out billions and billions of dollars, regardless of whether Congress authorized it.

Mr. WIDNALL. That is my interpretation of it, and I believe a lot of

people believe the same as I do in this connection. I believe until that is clarified, we have a complete contradiction within the bill.

The CHAIRMAN. You are going to offer an amendment to do that?

Mr. WIDNALL. I had not planned on doing it. We could do that.

The CHAIRMAN. Well, if you think it ought to be done, I should think that you, as the ranking minority member, should be prepared to offer the necessary amendment.

Mr. WIDNALL. The administration seemed to be insistent that there was no conflict within the bill.

The CHAIRMAN. Is that all, Mr. Martin?

Mr. MARTIN of Nebraska. Yes; that is all.

The CHAIRMAN. Senator, you wanted to ask a question?

Mr. PEPPER. If there are any others who wished to ask a question—

The CHAIRMAN. Go ahead.

Mr. PEPPER. Would not the answer to the question you propounded depend upon the language of the law under which the agency operates, and particularly what provisions are in the law relative to the disposition of funds derived from the sale of the obligations of the agency?

Mr. WIDNALL. Not completely.

Mr. PEPPER. In other words, they operate under a basic law that gives them the right to sell their obligations. Now, the law must provide what they do with the money when they sell the obligation, whatever that law. The bill is saying that whatever the law is, relative to their right to handle these funds under which they operate, that law shall prevail with respect to these funds also.

Mr. WIDNALL. That is not what this language says; no.

Mr. PEPPER. It is the way I read it:

The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust.

Now, they operate under a law and the law evidently allows them to sell the obligation and must make some provision for the use of this, for the disposal of the funds, for the handling of the funds derived from the sale of that direct obligation.

Mr. WIDNALL. This is all new law, though.

Mr. PEPPER. No; it just merely says that the funds derived from the transfer of the securities to FNMA from which they get receipts back from FNMA, shall be handled the same way as funds that are derived from the sale of the obligation that they hold directly. It comes back into their hands. That is all that says. These funds derived from FNMA shall be handled the same way as funds received from the sale of that obligation.

Mr. WIDNALL. What you are saying now is that they can relend.

Mr. PEPPER. That depends on what the law is. You have to look at the statute, how may they deal with funds derived from the sale of their obligations under the present law, whatever that law is relative to the proceeds of direct obligation sales. That same law will govern these receipts. That is all that says, as I read it. You have to look at the basic law to see what the law is.

The CHAIRMAN. Mr. Smith, did you desire to ask a question?

Mr. SMITH of California. As soon as Mr. Pepper is finished.

Mr. PEPPER. Yes.

Mr. SMITH of California. The Senate passed a bill last week?

Mr. WIDNALL. Yes, sir.

Mr. SMITH of California. Have you and the staff had a chance to read that? We had an amendment offered last week to cut it down from \$33 billion to \$10 billion plus. We had a discussion about where the amendment was going to go. The Senate took several amendments, one of that nature. Did they get it in the right place? Did anybody review the bill? Did they put it in the place where we suggested?

Mr. WIDNALL. That is right.

Mr. SMITH of California. Any other changes we should know about here?

I do not want to take a lot of time, but if there is anything we should know about here as to what they did—I read the record, but I could not tell all they did do.

Mr. WIDNALL. They put a 2-year limitation on the life of the approval given by the Appropriations Committee.

The CHAIRMAN. Is that all?

(No response.)

The CHAIRMAN. Thank you, Mr. Widnall.

Is Mr. Fino here?

(No response.)

The CHAIRMAN. Mr. Talcott?

(No response.)

Mr. WIDNALL. Mr. Brock, I think, should be next.

The CHAIRMAN. Mr. Clausen?

Mr. Brock?

STATEMENT OF HON. WILLIAM E. BROCK III, A MEMBER IN CONGRESS FROM THE THIRD CONGRESSIONAL DISTRICT OF TENNESSEE

Mr. Brock. Mr. Chairman, I just want to talk about the particular section, the particular approach to this bill that has not, in my opinion, been emphasized here. That is the fact that the purpose of this legislation, other than to take it out of the budget itself, is to conduct an end run around the limitation on long-range Federal bonds. We have today a limit of $4\frac{1}{4}$ percent on Government bonds. The problem that the Treasury has is that this is an unrealistic limit in today's tight money market. Treasury cannot sell these bonds, consequently, they have to have an additional source of revenue in the long-range market. This particular bill allows them to obtain long-range financing without exceeding the statutory limitations on Government bonds.

The effect of this bill is to allow the Government to pay higher interest rates for acquisition of long-term money.

I think the irony of it is that the chairman of our committee, who has been a low-interest advocate for years, who has even suggested in committee that we reduce the limitation on long-term debt, is supporting a bill which will effectively raise interest costs.

The problem we have in this country today is that we have a conflict between our monetary and fiscal policies, between the Federal Reserve Board and other Federal agencies. The monetary policy is inadequate to curtail current inflation. So what do we have, but

we offer the agencies another way of getting cash which will in turn feed the fires of inflation. At the same time, they are competing on the money market with the lenders and home mortgage field. That competition will pull another \$4.2 billion out of the money market, removing it from possible investment in home mortgages.

I just cannot see considering a bill which is an indirect approach to achieve higher interest rates. It seems to me that we are being a little bit unrealistic. If we are going to subsidize the college housing program or other programs, I think we ought to be honest about it and come in here with a specific bill allowing a specific subsidy to that program under the normal appropriation process. To simply use this as a vehicle to avoid the limitations on long-term Federal debt is a little bit hypocritical.

The CHAIRMAN. Thank you, Mr. Brock.

Mr. BROCK. If I might, having said that, comment on Mr. Pepper's question just briefly.

When we talk about whether or not the bill must use the appropriation process or whether or not these funds should be revolved, Mr. Pepper, you cannot say generally they can or cannot. It depends upon the law, as you mentioned in the instance of the SBA. Now, with some of the agencies, perhaps it could not be used again without appropriation. But in the specific instance of a program such as the education program, where there is no specific provision in current law, the agency can take this money, reloan it, take the loans, sell them, take the new cash, reloan that, take the new loans, and continue to turn over the program with absolutely no prohibition on the process, as I understand it.

Mr. PEPPER. Will the gentleman yield?

Mr. Brock, if you will look at page 6, lines 9 to 13, paragraph 4, now, before any of these securities can be transferred to FNMA under this legislation, there has to be specific authorization in an appropriations bill. That means that that proposal has to go to the Appropriations Committees of the House and the Senate. Now, would it not be only reasonable to suppose that the Appropriations Committees, when they are authorizing these transfers, will impose some limitations—for example, if the basic law of an agency did not require that they live within that authorization, that the Appropriations Committees will take care of that in the authorization so as to avoid them having unlimited authority to do what you say?

Mr. BROCK. Well, there is nothing to require it.

Mr. PEPPER. Well, the Appropriations Committees have the problem of keeping the appropriation down as much as they can. I would think if somebody called it to their attention that an agency that wanted to transfer, let's say, \$500 million, the Appropriations Committee would say, "Wait a minute, what will that do with your legal authorization that you now have? We are not going to give you another \$500 million in addition to the \$500 million you already have. We will authorize you to transfer these, but at no time shall the funds that you have disposed of exceed the legal authorization.

Mr. BROCK. But, Mr. Pepper, you are substituting the judgment of the Appropriation Committee for the authorizing committee, and under the law, in certain agencies, the money that is gained through the sale of assets can reduce the amount that has been charged against

the authorization. There is no requirement that it be added on under present laws. It can be used to reduce the amount of money that is charged against the authorization.

Our objection—at least mine—is that you are substituting the Appropriations Committee's judgment for the authorizing committee's. I do not think this is a major point; I think it will be changed in amendment. As it is today, this bill, with the two conflicting sections, we do allow this to happen subject to the will, as you say, of the Appropriations Committee, perhaps, but there is no requirement that they exercise that judgment. There is no requirement that they say that funds shall not exceed the authorization.

They can say, with full candor, according to the language of the bill, that the money raised shall be used to reduce that amount which has been charged against the original authorization. There is no prohibition against that at all in this bill.

Mr. PEPPER. If the gentleman will yield just once more, there is no obligation on the part of the Congress, through the Appropriations Committees, to authorize these transfers. It is a matter of discretion. And if they see that the effect of authorizing one of these transfers would be to give an agency more money than they think they ought to have, they just do not authorize it, that is all there is to that. That authorization is a condition precedent to any of these transfers.

Mr. BROCK. Is that a function of the Appropriations Committee or the authorizing committee?

Mr. PEPPER. I am talking about the Appropriations Committee. Congress itself exercises the discretion to say—this agency comes in and says, we want to transfer \$500 million. Congress says that means there will be more funds available to you, what is your authorization? What are you going to use this money for? It exercises its discretion as to whether it is going to make any more money available to them or not.

Even if there is an authorization, the Appropriations Committee does not have to provide that much money.

Mr. BROCK. But, Mr. Pepper, the Appropriations Committee, under this bill, can negate the will of the authorizing committee, whatever the committee happens to be. They can, in effect say that the authorization of \$500 million was originally granted, it was spent, we sold the assets and we got another \$500 million. If they loan that, they will have actually spent a billion dollars.

The Appropriations Committee can allow them to do it as the bill is written.

Mr. PEPPER. They can always do that, can they not? They don't always have to approve or appropriate the money authorized.

Mr. BROCK. They cannot now appropriate more than authorized. That is what this bill is authorizing. That is my objection.

Mr. QUILLEN. Mr. Chairman?

The CHAIRMAN. Mr. Quillen?

Mr. QUILLEN. The day the Under Secretary of the Treasury spoke, he said that if an agency sent over \$200,000 worth of notes to be sold, or securities, the Appropriations Committee would authorize them to sell at a certain percentage discount. But that agency would receive the full \$200,000 back. In other words, it would be no loss to the agency. Actually, the Appropriations Committee would appropriate

more money to sustain the loss and the taxpayers would actually be suffering.

My point is this: Assuming that \$200,000 of college loans were pooled with FNMA, which now bear 3 percent interest, placed on the market, to yield the current interest rate. In my opinion, it would be about a 10-percent discount. Say, a million dollars were pooled; that would represent a \$100,000 loss.

Now, would that loss be charged against the agency? The answer was "No" from the Under Secretary of the Treasury.

How would that fit in with the appropriation allocated to that particular agency? Would it be over and above the authorized ceiling or would it be deducted from it?

Mr. BROCK. It would not affect the appropriation or the authorization related to that agency. It is over and above. It is related to this particular act. It has no relevance to the authorization, no relevance to the appropriation for the agency, original appropriation. It is a specific appropriation that comes through, on request, by the agency and FNMA.

Mr. QUILLEN. So in effect, then, this is a device to create more money for these particular agencies through the Appropriations Committee, with the taxpayers actually sustaining the loss?

Mr. BROCK. That is right. This is what bothers me. If we are going to be honest and say we want to subsidize college housing, and we want to subsidize it through the private market, why not just say we are going to put a flat 3-percent subsidy or a two and a half or whatever it takes to meet the market rate on the college housing program? Why do we have to use this end run around the long-term Federal money market?

As you say, it does not affect the authorization. It is simply a device for picking up more funds without the normal authorization appropriation process of the Congress.

Mr. QUILLEN. Thank you, Mr. Chairman.

The CHAIRMAN. Any other questions?

Mr. YOUNG. No questions, Mr. Chairman.

The CHAIRMAN. I still have something worrying me, but I guess I had better not bore you with it. I have not found anybody yet who could answer it.

Mr. BROCK. Which one was that, Mr. Chairman?

The CHAIRMAN. I think it is an interesting question, one we ought to be able to answer. I have given up trying to understand all about this. I have never been able to understand the mechanics of how this thing is handled and where the money goes.

Now, we were told that the first thing that has to happen before any bonds can be sold is that the Appropriations Committee shall authorize the transfer to the FNMA.

Is that correct?

Mr. BROCK. In effect, that is correct.

The CHAIRMAN. So they act before the fact.

Now, after they act and it goes to FNMA, FNMA sells the bonds and gets the money.

Now, where does the money go?

Mr. BROCK. It goes right back to the original agency.

The CHAIRMAN. No, the bill says it goes into a trust fund.

Mr. YOUNG. It goes to the Treasury to the account of the agency.

Mr. BROCK. All money is maintained in the Treasury if you want to talk about the physical dollar bills. They are maintained in the Treasury. But the books of the Treasury reflect credits and debits to the agencies. The bill says, "The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections."

In effect, if FNMA sells for SBA \$100 million worth of assets, there is a hundred-million-dollar credit immediately placed to the account of SBA on the books of Treasury. They have an immediate draw. In other words, they have a bank account in Treasury to the extent of \$100 million.

The CHAIRMAN. That, then, constitutes a revolving fund.

Mr. BROCK. Yes, sir.

The CHAIRMAN. As soon as the Appropriations Committee takes initial action, that becomes a revolving fund.

Mr. BROCK. That is right.

The CHAIRMAN. Then they can sell some more now.

Mr. BROCK. As they loan that money out, they can take the new loans, turn them over to FNMA, going through the Appropriations Committee and sell them again.

The CHAIRMAN. Now, Small Business has a limitation on the amount. Is it contemplated that they will get a further authorization to increase that and have a—

Mr. BROCK. The way the bill reads now, Mr. Chairman, it is not required that they get a new authorization. Money can reduce—

The CHAIRMAN. Not that money, but these—suppose they want to enlarge their business.

Mr. BROCK. Well, they can enlarge their business either by getting a new authorization and appropriation or by selling their assets and getting new cash with which to loan.

The CHAIRMAN. But cannot they do it both ways?

Mr. BROCK. Yes, sir; either way.

Mr. SMITH of California. If you will permit me to interrupt, Mr. Chairman, I think SBA is a unique situation. I think it is probably the only one Congress handles that way. Authorizations for SBA have always had a limit of so many billions of dollars. We put a top limit on it and then Appropriations can appropriate any amount of money so long as they never go over that top limit. Appropriations has always funded every dollar SBA has asked for.

Now, SBA ran out of some money here. They came in and wanted \$125 million more. It was authorized. The bill was signed last Monday by the President. So that raised the total ceiling by \$125 million.

Now, all they have to do to get that is to come in and ask Appropriations. But SBA may not do it because of this bill; they can keep going around as long as they never go above the ceiling so far as Appropriations is concerned. They can grind it over and over the same way and the total amount will be more, but it will never be more than the total appropriation.

But SBA is a little different from the Veterans' Administration, say.

The CHAIRMAN. In order to make this revolve, how often do they have to go back to Treasury and get power to sell?

Mr. SMITH of California. I would think every time FNMA makes another issue. The paper said Saturday they are going to put out \$3 billion more this year than they ever did before and told exactly how they did it. But that was their fourth FNMA participation sale.

The CHAIRMAN. But they have to come repeatedly back to the Appropriations Committee to get the power to sell the bonds?

Mr. SMITH of California. Under this bill, the testimony has been that they do not.

Mr. BROCK. They do have to come back to the Appropriations Committee.

The CHAIRMAN. Repeatedly?

Mr. BROCK. Yes, sir; on each issue. But they do not have to go to the authorizing committee. They can exceed, in fact, their authorized level without going to the authorizing committee. They can go only to the Appropriations Committee as the bill is written today.

Mr. BOLLING. I might point out if the gentleman would yield, that this is the same kind of violation as legislation on the appropriation bill.

Mr. SMITH of California. That is right. That is exactly what it is.

Mr. SISK. If I could just comment further on this SBA, I am now thoroughly confused. And that is not unusual, I might say to my good friend from Missouri—

Mr. BOLLING. We are all confused at this point.

Mr. SISK. But at that point, I asked the question that if SBA turned over \$400 million to FNMA to market and they sold the \$400 million, that \$400 million then goes back to the Treasury marked for SBA, then could SBA turn around and immediately loan against that \$400 million, the answer was "No," if their total loans were above or were up to whatever their maximum is.

Now, this is the question I would like to have answered: Can they or can they not turn around and loan this \$400 million if they have in total loans outstanding up to their maximum authorization under a legislative committee's authorization bill?

Mr. SMITH of California. My answer to that is this: The title passes to FNMA as trustee, which reduces the total amount of loans that the SBA has out. The loans turn into pool certificates. They are quoted in the Wall Street Journal, down under Treasury bonds. They are sold and traded over the counter. It is another piece of security which is a FNMA certificate and not the loan. So the total loans are down. If the agency gets \$100 million back, they have that hundred million dollars and they can go back up to the ceiling, because those certificates are not counted against the ceiling as loans. They transfer title. It is gone. It is an FNMA certificate. If FNMA loses money on it, the agency services them, and if FNMA loses money, FNMA has a right to go to the Treasury and get whatever amount of money they want.

The only thing Appropriations does is give FNMA the amount of money they have overspent in the year.

Mr. SISK. I may say to my colleague, this is the answer I expected last Thursday, because it could help SBA, put them back in business again. But the answers I received, as I understood them, last Thurs-

day were not in line with that. I would hope the gentleman's interpretation, and I am assuming—you are on the Small Business Committee, I believe?

Mr. SMITH of California. I am on it. I have been arguing this subject for a year. They just refuse to ask for money—we have been begging them to ask for money—because they want to keep these. There are some politics in it, I am sure. The Appropriations Committee has funded every single dollar they have asked for.

We had a bill up last year, you will remember, and the SBA said, we are not going to ask for money even if you authorize it. This was a Senate bill.

SBA came around and wrote a different letter on Saturday, and we marched back up the Hill and said fine. Once they said they had asked for it, we went ahead and authorized it.

We have always wanted to give them money, particularly because of the disasters. Now funds are divided. We have the disaster money and we have the conventional loan money in separate funds, and we hope we will not get into that problem again of not having money for disasters.

Mr. BROCK. If I may comment, in answer to your question, the bill as it is written today does allow an agency to turn around and reloan that \$400 million you mentioned?

Mr. SISK. Regardless of what their total loan is. Because by the sale by FNMA, in line with what Mr. Smith of California says, that reduces their outstanding loan by that much?

Mr. BROCK. Right.

Mr. SISK. OK.

Mr. BROCK. SBA is a specific instance and it is even clearer that other agencies can do it. There is a direct conflict on SBA.

Mr. QUILLEN. Would the gentleman yield?

In my questioning of the Under Secretary of the Treasury last week, I said this would be a revolving fund and he said "No." I wonder if they really know what they are doing in this bill?

Mr. BROCK. This is one of the complaints we have, that the bill is contradictory in and of itself.

The CHAIRMAN. There is some strange language.

Mr. QUILLEN. I agree. I think it ought to go back to the committee.

Mr. BROCK. We feel that the Secretary was wrong.

The CHAIRMAN. Well, Mr. Brock, I apologize for going into this further, because I have struggled with it for 10 days trying to find out what it means. But on page 6, this authorization we are talking about:

Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation act.

Well, now, I think that is subject to two constructions, and maybe—I do not know why it is worded the way it is. But it worries me.

Authorized with respect to such trustor in an appropriation act.

It could mean that the Appropriations Committee is authorized by this act to make the authorization.

Is that what it means?

Mr. BROCK. That is what we feel could happen. We feel that the Appropriations Committee could make the judgment allowing the sale to reduce the charge against the original authorization and thereby create this revolving fund.

The CHAIRMAN. I have never seen that language before in any other act.

Mr. Fink, have you ever seen that language used before in authorizing legislation?

Mr. FINK. Mr. Chairman, that does not bother me as much as the language at the bottom of the page, which is that once the authorization to sell an amount of pooled loans has been given, then, with no further action, in line 25, page 6 and on page 7: "there is established on the books of the Treasury appropriations," unlimited as to amount.

The CHAIRMAN. Again they use that same type of language:

Such an authorization in an appropriation act shall establish * * *.

Mr. FINK. Right. The usual appropriation language, of course, is "there are hereby authorized to be appropriated to the trustor such sums." That is not what the bill says at all.

The CHAIRMAN. Of course, that is subject to point of order.

Mr. BROCK. I think you have given away some points of order on this bill.

The CHAIRMAN. Any other questions of Mr. Brock?

(No response.)

The CHAIRMAN. Thank you, Mr. Brock.

Mr. PEPPER. Mr. Chairman, may I ask Mr. Brock one more question?

Mr. Brock, I understood you said a while ago that the educational loans were from a revolving fund that did not have any limitation.

Mr. BROCK. No, sir; I said we could create, under the language as written, a revolving fund for the educational programs.

Mr. PEPPER. Well, I noticed this language at the bottom of page 7:

There is hereby created within the Treasury, a separate fund for higher education academic facilities loans (hereinafter in this section called the fund) which shall be available to the Commissioner without fiscal year limitations as a revolving fund for the purposes of this title.

Then next:

The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation acts.

Mr. BROCK. Well, again, it is my feeling that this is in conflict with the other section and again, you are talking only of appropriations and not authorizations.

Mr. PEPPER. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Brock.

Mr. Clausen?

STATEMENT OF HON. DON H. CLAUSEN, A MEMBER IN CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF CALIFORNIA

Mr. CLAUSEN. Mr. Chairman, I doubt at this point that I have anything further I can add that has not been discussed by the committee, except to call attention again to this one point. That is the law now as it is applicable to the Federal National Mortgage Association in

connection with their ability and power to deal, and if I can refer to page 8 in the report, you can see what I am talking about in connection with the law. The Association is authorized under section 306—

to create, accept, execute, and otherwise administer in all respects such trusts, receiverships, conservatorships, liquidating or other agencies, or other fiduciary and representative undertakings and activities, hereinafter in this subsection called "trusts."

Then it goes on with the new language "and other types of securities, including any instrument commonly known as a security."

Now, in my opinion, this gets into stocks as well as all the other securities that may be used here, and if, in their capacity as a receivership or conservatorship, FNMA can move in this direction, I can see a wide open spectrum of activities in which they can engage if stocks are included as part of this program. Just "receivership" and "conservatorship" would give them the power, I think, which perhaps should be explored in the language of this bill.

The CHAIRMAN. Any questions of Mr. Clausen?

Mr. PEPPER. No questions.

The CHAIRMAN. Mr. Fino?

Mr. WIDNALL. Mr. Fino and Mr. Talcott are not here, so you had better cross them off the list.

The CHAIRMAN. Is that all who were to appear on this question?

Mr. WIDNALL. That is all.

The CHAIRMAN. Thank you, gentlemen.

We might go into an executive session for a few minutes. We have finished much earlier than I have expected.

Mr. WIDNALL. Mr. Chairman, I think I said before that the minority recommended 4 hours of general debate and were against waiving points of order.

The CHAIRMAN. There was a request to waive points of order and I was going to ask the proponents of the bill, and none of them are here, what specific points they had in mind.

Mr. SMITH of California. They were going to give you a memorandum. You asked them to give you a memorandum.

Have they given that to you?

Mr. BATTLE. They gave you a letter. Then on the points or order, you asked for additional thinking.

(Discussion off the record.)

The CHAIRMAN. We will go into executive session and talk a little bit.

(Whereupon, at 11:25 a.m., the committee adjourned to go into executive session.)

LEGISLATIVE HISTORY

Public Law 89-429
S. 3283

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Index and summary of S. 32831
Digest of Public Law 89-4292

INDEX AND SUMMARY OF S. 3283

April 20, 1966	House received President's proposed participation sales bill. H. Document 426. Print of document.
	Rep. Patman introduced H. R. 14544 which was referred to House Banking and Currency Committee. Print of bill as introduced.
April 21, 1966	Senate received President's proposed bill.
	House committee voted to report H. R. 14544.
April 25, 1966	House committee reported H. R. 14544 with amendments. H. Report 1448. Print of bill and report.
April 27, 1966	Sen. Muskie introduced S. 3283 which was referred to Senate Banking and Currency Committee. Print of bill as introduced.
April 28, 1966	Senate committee reported S. 3283 without amendment. S. Report 1140. Print of bill and report.
May 2, 1966	Senate made S. 3283 its unfinished business.
May 3, 1966	Senate began debate on S. 3283.
May 5, 1966	Senate passed S. 3283 with amendments.
May 11, 1966	House Rules Committee reported resolution for consideration of H. R. 14544. H. Res. 852. H. Report 1522. Print of resolution and report.
May 16, 1966	House began debate on H. R. 14544.
May 17, 1966	House continued debate on H. R. 14544.
May 18, 1966	House passed S. 3283 with amendments, substituting language of H. R. 14544.
	H. R. 14544 laid on table due to passage of S. 3283.
May 19, 1966	Senate considered motion to agree to House version of S. 3283.
May 23, 1966	Senate concurred in House version of S. 3283.
May 24, 1966	Approved: Public Law 89-429.

DIGEST OF PUBLIC LAW 89-429

PARTICIPATION SALES ACT OF 1966. Promotes private financing of credit needs and provides a method of liquidating financial assets held by Federal credit agencies by authorizing six specified federal agencies, including the Farmers Home Administration, to place in pools a part or all of the notes or obligations made or acquired by them through operations of their loan programs; and to sell to investors participation certificates based on the pools. The Farmers Home Administration may establish trusts only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly, nor with respect to loans for nonfarm recreational development.

DIGEST of Congressional Proceedings

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Issued April 21, 1966
For actions of April 20, 1966
89th-2nd; No. 66

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HIGHLIGHTS: House committee cleared bill to regulate use of cats and dogs in research. House received proposed Sales Participation Act, and several Representatives discussed its merits. Senate committee reported community development districts bill. Senate committee approved USDA plans for educational-scientific foundation in India.

SENATE

1. **COMMUNITY DEVELOPMENT DISTRICTS.** The Agriculture and Forestry Committee reported with amendments S. 2934, to authorize grants for comprehensive planning for public services and development in community development districts designated by the Secretary of Agriculture (S. Rept. 1107). p. 8185
2. **SCHOOL LUNCH AND MILK.** Received a Mass. General Court resolution opposing the Budget cut in the school lunch and milk programs. p. 8185

Sen. Proxmire claimed that four out of five needy children are left out of the Administration's school milk program. p. 8192

3. SUGAR. Sen. Pearson said the Kans. sugarbeet industry is having difficulties because of elimination of the Mexican farm labor program and "the current policy of the Department of Agriculture prohibiting the transfer of unused beet acreage allotments across State lines." pp. 8215-6
4. CATTLE-HIDE EXPORTS. Sen. McGovern claimed the decision on this subject has been made even though departmental hearings are continuing. pp. 8217-9
Sen. Hruska said hide-export controls are unfair to the farmers. pp. 8230-2
5. EXTENSION EDUCATION. Sen. Morse inserted and commended an article describing Oregon's extension education system. pp. 8219-20
6. CONSUMERS. Sen. Hart commended the plans for "holding the first nationwide Consumer Assembly." p. 8221
7. EXPENDITURES. Sen. Jordon, Idaho, inserted and commended an article favoring reduced Government spending as an anti-inflation measure. pp. 8221-2
8. FARM PRICES; EXPENDITURES. Sen. Hruska criticized the Secretary's recent statement on high farm prices and recommended reduced Government spending. p. 8222
9. FORESTRY. Sen. Yarborough inserted several articles describing Justice Douglas' plans to study forests in Texas. pp. 8222-4
Sen. Fong inserted and commended a statement by Sen. Jordan, Idaho, favoring additional access roads. pp. 8225-7

10. LOANS. Sen. Bennett claimed the proposed Sales Participation Act is a budgetary subterfuge. pp. 8229-30
11. APPROPRIATIONS; CLAIMS. Received from the President a supplemental appropriation estimate for payment of claims and judgments (S. Rept. 87). p. 8185
12. FOREIGN AID. The Daily Digest states that the Agriculture and Forestry Committee "approved plans of the Department of Agriculture to grant up to \$300 million in Indian rupees to establish a binational foundation with India for educational and scientific development, an allocation of \$3 million equivalent of U. S.-held foreign currencies in excess of U. S. requirements for grants for disaster relief purposes." pp. D327-8

HOUSE

13. SALES PARTICIPATION. Received from the President a proposed bill to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies (H. Doc. 426); to Banking and Currency Committee. p. 8161
Several Representatives spoke for and against the proposed Sales Participation Act. pp. 8093-7, 8117, 8122
14. ANIMAL RESEARCH. The Rules Committee reported a resolution for consideration of H. R. 13881, to authorize the Secretary of Agriculture to regulate the transportation, sale, and handling of dogs, cats, and other animals intended to be

PRIVATE FINANCING OF CREDIT

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A DRAFT OF PROPOSED LEGISLATION TO PROMOTE
PRIVATE FINANCING OF CREDIT NEEDS AND TO PRO-
VIDE FOR AN EFFICIENT AND ORDERLY METHOD OF
LIQUIDATING FINANCIAL ASSETS HELD BY FEDERAL
CREDIT AGENCIES AND FOR OTHER PURPOSES



APRIL 20, 1966.—Referred to the Committee on Banking and Currency,
and ordered to be printed.

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1966

LETTER OF TRANSMITTAL

THE WHITE HOUSE,
Washington, April 20, 1966.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: I have the honor to transmit the "Participation Sales Act of 1966." This important legislation is designed to forward our objective of substituting private for public credit.

For many years the Federal Government has carried on lending programs to finance essential activities which would not otherwise receive adequate financial support. Under these programs direct loans are made to help the farmer, the businessman, the home buyer, the veteran, the student, our colleges, and our schools. As of June 30, 1965, the volume of these Federal loans exceeded \$33 billion.

Desirable as these activities are, Federal lending neither can, nor should, shoulder the entire job.

Under our system of free enterprise it is far better for the Government to mobilize private capital to these ends; and it is far better for the Government to stimulate and supplement private lending rather than to substitute for it.

To do this, we sell Federal loans directly, or in some cases, sell "participations" in pools of loans, to private investors. The Government acts as both middleman and underwriter for the loans, assuring adequate and economical financing for desirable projects while at the same time attracting the maximum participation of private investors.

This substitution of private for public credit provides sound financing for worthwhile projects with a minimum of Federal participation.

In encouraging private participation in Federal credit programs, I am building on the outstanding work begun and carried forward by:

President Eisenhower's administration.

The 1958 Commission on Money and Credit, chaired by Frazar B. Wilde and of which Secretary of the Treasury Fowler and many other distinguished citizens were members.

President Kennedy's 1962 Committee on Federal Credit Programs, under the chairmanship of former Secretary of the Treasury Dillon.

The substitution of private for public credit has many advantages:

It makes more effective use of the taxpayers' dollar.

It offers the private investor an opportunity for sound investment and a fair return.

It benefits business and those of our citizens who are helped by the vital programs made possible both by Federal and private investment.

In the fiscal year we expect to replace a total of \$3.3 billion in public credit with private credit. In fiscal 1967, with the help of legislation such as the proposal I am submitting today, we believe that private

credit can be substituted for public credit, advantageously to all concerned, in the amount of approximately \$4.7 billion.

As private credit is introduced on an increasing scale, the need to coordinate the sales of Federal loans also increases. It would defeat the purpose of improving the operation of the credit market if loans offered under particular programs interfered with each other or with the orderly financing of the public debt through the sale of Treasury securities.

The Participation Sales Act of 1966 will help solve this problem in two important respects:

First, instead of the Government making a number of relatively small and uncoordinated offerings of loans in the market, the act provides for pooling many loans together and selling participations in the pool. The pooling of mortgages and loans and the sale of participations in the income and repayments from loans in the pool is not new. It has been used to advantage over the past several years by the Export-Import Bank, the Veterans' Administration, and the Federal National Mortgage Association.

Second, this legislation would extend the pool participation technique to other lending programs, including:

Farmers Home Administration.

Office of Education.

College housing.

Public facilities loans.

Small Business Administration.

The pool technique adopted by this legislation has a number of advantages:

It assures the Government the best possible return on the sales of financial assets.

It provides the investor with a widely accepted and highly desired asset.

It provides a means for attracting private participation in loans made with relatively low interest rates for special purposes.

It reaches sources of capital which would not be available for loans or mortgages offered individually, thus widening the reservoir of credit for vital projects.

The proposed legislation has two other major provisions.

1. Rather than have each of the agencies concerned conduct their own separate sales programs, the sale of participations would be centralized in a single agency—the Federal National Mortgage Association. This agency has already built up extensive experience with this technique in its mortgage pooling operations.

Individual agencies would continue to administer their credit programs, but the pooling of credits and sales of participations in the pools would be handled by the Federal National Mortgage Association. This centralization will greatly increase the efficiency of the sales operation and help coordinate this program with the Treasury's debt management operations.

2. In many cases the Congress has established Federal credit programs in which the interest rate charged to the borrower is below the market rate. The difference represents a net charge to the taxpayer. The act provides that, in all such cases, the Appropriations Committees of both Houses must authorize in advance the amounts of participations which could be sold against these assets. In this

way, the safeguards of the annual appropriations process can be applied to this aspect of the program.

The Participation Sales Act of 1966 will permit us to conserve our budget resources by substituting private for public credit while still meeting urgent credit needs in the most efficient and economical manner possible.

It will enable us to make the credit market stronger, more competitive, and better able to serve the needs of our growing economy.

But above all, the legislation will benefit millions of taxpayers and the many vital programs supported by Federal credit. The act will help us move this Nation forward and bring a better life to all the people.

I am enclosing a joint memorandum from the Secretary of the Treasury and the Director of the Bureau of the Budget which discusses in detail the major features of this legislation.

I urge speedy enactment of this legislation.

Sincerely,

LYNDON B. JOHNSON.

PROPOSED ACT

A BILL To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Participation Sales Act of 1966".

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

(1) by inserting "(1)" immediately following "(c)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking out the words "offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency" in the first sentence thereof and by inserting "and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations,' in which the United States or any executive department, agency,";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission."; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following:

"(2) Notwithstanding any other provision of law, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called in 'trustor', is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, may guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. Notwithstanding any other provision of law, the Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: *Provided:* That the trust instrument shall provide that

custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayments of such obligations. The effect of both past and future sales of any issues of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

“(3) If any trustor shall guarantee to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

“(4) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that aggregate receipts from obligations subject to the related trust are or may become insufficient in amount to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors): *Provided*, That no such beneficial interests or participations shall be issued in relation to any obligations unless the trustee determines there is a reasonable probability there will not be an insufficiency as aforesaid, or unless the amounts issued are within aggregate principal amounts authorized in advance in appropriation acts, and it shall be in order to include provisions authorizing such issuance in an appropriation act. Whenever such an aggregate principal amount is so authorized, there shall be established on the books of the Treasury as indefinite appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations, and such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument.”

SEC. 3. (a) Section 305(c) of the Federal National Mortgage Association Charter Act is amended by deleting "by \$450,000,000 on July 1, 1966,".

(b) Section 401(d) of the Housing Act of 1950 is amended by deleting "1968:" immediately preceding the first proviso and by substituting therefor "1965, and 1967 and 1968:".

SEC. 4. (a) Section 303 (c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: "For the purpose of making payments into the fund established under section 305".

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called 'the fund') which shall be available to the Commissioner without fiscal-year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation acts.

"(b)(1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with the sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undischarged cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury."

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence "and (8)" and inserting in lieu thereof "(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)"; and by inserting in the fifth sentence after "title," the following: "section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,".

SEC. 6. Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

APRIL 19, 1966.

MEMORANDUM

MEMORANDUM FOR THE PRESIDENT

This memorandum was prepared to provide you with background concerning the "Participation Sales Act of 1966." We recommend that you transmit the legislation to the Congress.

The proposed legislation is designed to implement your recommendation in the budget message relating to the substitution of private for public financing in various Federal credit programs. Specifically, the draft bill would provide for a coordinated program, through the Federal National Mortgage Association, of sales of participations in pools of financial assets held by various Federal agencies.

The basic purpose of the proposed legislation, as indicated, is to encourage the substitution of private for public credit in various major Federal credit programs. Given the desirability of drawing in greater private participation in the Federal credit programs, the sale of interests in pools of assets is the most satisfactory and economical means that has been devised to meet this end. The program of asset sales also facilitates the efficient use of budgetary funds.

The technique now proposed for sales of assets have evolved gradually during the past three administrations, stretching back in time to the mid-1960's. Both the Commission on Money and Credit, which produced its distinguished report in 1961, and President Kennedy's Committee on Federal Credit Programs, which was chaired by Secretary Dillon, recommended that vigorous efforts should be made to encourage private participation in Federal credit programs. A similar point was made in a minority report of the House Ways and Means Committee in 1963, which urged an expansion of the Federal Government's asset sales.

A guiding principle of these programs is that Federal credit should supplement or stimulate private lending rather than substitute for it. This is a matter of basic economic philosophy, as well as a recognition of the fact that the private market should, and will, continue to account for the bulk of all credit extensions.

Federal credit programs, working through the private market, help to make the market stronger, more competitive, and better able to serve the economy's needs over the long term, than if the Federal credit programs unnecessarily preempted functions that private lenders could perform effectively. In addition, use of private market facilities frequently can ease the problem of administering Government programs and make Government aid, where appropriate, more available to potential borrowers.

Carrying through these principles and recommendations, increased emphasis has been placed in recent years on greater use of Government guarantees of private credit and on direct sales of individual Government loans to private lenders. More recently, sales of indi-

vidual loans have been supplemented by pooling large numbers of loans and selling certificates of participation in such pools.

By the use of this efficient technique, the Export-Import Bank of Washington has been able, since 1962, to sell about \$1.7 billion of its direct loans which otherwise might not have been marketable. The Federal National Mortgage Association, acting as trustee under authority granted by the Housing Act of 1964, has been able to sell \$1.6 billion of participation certificates (including their current offering) in pools of housing mortgage loans set aside by its management and liquidation and special assistance functions and by the Veterans' Administration.

Even with these major efforts to draw on private credit, the volume of direct Federal loans outstanding has increased in recent years. It was \$25.1 billion on June 30, 1961, and \$33.1 billion on June 30, 1965. The estimated level for June 30, 1966, is \$33.3 billion assuming completion of the sales indicated in the latest budget document. Under the proposed program of asset sales, the volume of direct Federal loans outstanding would decline to \$31.5 billion on June 30, 1967.

The increase in asset sales largely arises from broadening the program, as proposed in your 1967 budget, to include sales of participations in assets of the Farmers Home Administration, the Office of Education, the college housing program, the public facility loan program, and the Small Business Administration.

The centralization of the participation sales activity in FNMA, by building on an already successful body of market experience, will help to assure the orderly and most economical sale of this paper. It will also assure the effective coordination of these offerings, not only with one another but also with the Treasury's own debt management operations. The alternative of having each of the agencies involved conduct its own sales operation would greatly complicate the coordination problem, would produce a wasteful duplication of efforts, and would result in a less effective and more costly operation for the Federal Government. Under the guidance of FNMA, the asset sales undertaken for newer programs, less well known to the market, would gain the benefit of seasoning and experience that has been built up already through the FNMA operations.

Another advantage of the pool arrangements goes back to the fact that a number of sound Federal loans carry interest rates significantly below levels at which private lenders would be willing to invest their funds in the present market. These rates, in many cases, have been written into the legislation setting up the programs. While the relatively low rates do not make the loans any less sound, these rates do mean that such loans could be sold directly to private investors only at substantial discounts.

The proposed legislation would make it possible to include such loans in marketable pools by providing, in effect, means for the agency owning the loans to make supplementary payments to the trustee of the pool to cover the interest insufficiency. The supplementary payments would be subject to the effective approval of the Appropriations Committees since these committees would authorize the amounts of any issues of participations on which supplementary payments are likely to be required. Section 2(b)(4) of the bill specifically provides

that the amount of any such participation issues be within aggregate principal amounts authorized in advance in appropriation acts.

A further advantage of the pool arrangements is in their ability to draw into the financing of public credit programs practically all sectors of the capital markets. Many segments of the market cannot deal in individual mortgages. Other sectors are not able to purchase individual business or college housing loans. But almost all segments of the market are potential investors in pool certificates. Two consequences flow from this: first, the market for a number of particular types of credit instruments is substantially broadened; and, second, sales of participations do not disrupt particular segments of the capital markets, as might be the case if the mortgages or loans were sold individually.

It has been pointed out on some occasions that the sale of Federal credit program financial assets, whether through participation certificates or other means, is more expensive than financing through the direct issue of Treasury obligations. This is true, although the cost difference has proved to be relatively minor. For example, FNMA participation certificates have been sold at rates roughly one-fourth of 1 percent above Treasury issues of comparable maturity; and it is entirely possible that the margin may diminish as the market gains experience with these high-quality credits.

Moreover, carried to its logical conclusion, this argument would have the Treasury financing directly all of the Federal insurance and guarantee programs, since it can obviously do this more cheaply than the private market. Other types of credit, now handled entirely in the private market, could also be financed more "cheaply" by the U.S. Treasury. We certainly wish to retain, however, the principle that the allocation of credit for essentially private purposes should be a function of the private market. That was the philosophy of the Commission on Money and Credit and of the President's Committee on Federal Credit Programs. It is a sound philosophy, and I believe we should continue our efforts to strengthen the private market as a means for achieving program objectives with a minimum of Government interference.

For the reasons stated above, we recommend that you transmit the attached bill to the Congress and urge its speedy passage.

HENRY H. FOWLER,
Secretary of the Treasury.

CHARLES L. SCHULTZE,
Director, Bureau of the Budget.

SECTION-BY-SECTION SUMMARY OF THE PARTICIPATION SALES ACT OF 1966

General

The bill would broaden and make available on a governmentwide basis authority for the sale of participations in pools of financial assets now owned by Federal credit agencies. This would be accomplished by revising the authority provided in 1964 under which the Federal National Mortgage Association as trustee sells certificates of participation in pools of assets set aside by the Veterans' Administration

and by the special assistance functions and the management and liquidating program of FNMA, and by making related changes in statutes of other agencies to permit such agencies to make use of participation sales methods.

Section 1. Short title

The bill would be cited as the "Participation Sales Act of 1966."

Section 2. Amendments to section 302(c) of the Federal National Mortgage Association Charter Act

Subsection (a) would amend existing section 302(c) of the Federal National Mortgage Association Charter Act to accommodate the provisions of new paragraphs (2), (3), and (4). The first and second amendments are technical. The purpose of the third amendment is to qualify for inclusion in participation trusts, securities held by various Government agencies even though they may not be within the technical definition of obligations. The fourth amendment would exempt participation certificates issued pursuant to this act from all regulation by the Securities and Exchange Commission. The fifth amendment would repeal the existing authority for appropriations to offset differentials arising from the issuance of participations based on below-market interest rate mortgages insured under section 221(d)(3) of the National Housing Act; this repeal is appropriate because of substitute arrangements provided in subsection (b) of section 2 of the bill.

Subsection (b) would add new paragraphs (2), (3), and (4), to section 302(c) of the FNMA Charter Act. New paragraph (2) would authorize the head of any executive department, agency, or instrumentality of the United States to set aside a part or all of any financial assets held by him, subject them to a trust or trusts, and to guarantee to the trustee the timely payment of principal and interest on the assets so set aside. Under the trust instrument FNMA would act as trustee, and title to the obligations so set aside would be deemed to have passed to FNMA in trust. The custody, control, and administration of the obligations, however, would remain in the trustor, subject to transfer in event of default in the payment of principal and interest of the related participation certificates issued by the trustee. The trust instrument would require the trustee to pay promptly to the trustor the full net proceeds of any sale of participations, and require the trustor to treat the proceeds as otherwise provided by the law for direct sales or repayments of such obligations. To facilitate liquidation of assets because of prepayments or defaults and to release assets for direct sale, any trustor would be authorized, through the facilities of the trustee, to acquire outstanding participations to the extent of his responsibility to the trustee. Any trustor would also be authorized to pay his proper share of the costs and expenses incurred by the trustee.

New paragraph (2) would also specifically exempt any such trusts from all taxation. This, in effect, would categorize the trust as a corporation and exempt its income from tax. Since the trust is a corporation, the income received by the participation holders would be taxable dividends, even if part of the income earned by the corporation would have been tax exempt if owned directly by an investor.

New paragraph (3) would authorize any trustor to fulfill his guarantee of the timely payment of obligations subjected to a trust by using

any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

New paragraph (4) would expressly authorize FNMA, as trustee, to issue and sell participations even if the aggregate receipts from obligations subject to the related trust are insufficient to permit the payment by the trustee of all interest or principal on the participations. However, the trustee cannot issue participations unless it determines there is a reasonable probability that the aggregate receipts from the obligations will not be insufficient, or unless the amounts of participations issued are within aggregate principal amounts authorized in advance in appropriation acts. Authority is given to include provisions authorizing the issuance of such participations in an appropriation act.

When the amounts of participations to be issued are authorized in an appropriation act or acts, indefinite appropriations would be established on the books of the Treasury in the amounts necessary to enable the trustor to effect timely payment to the trustee of any insufficiencies on account of outstanding participation. The trustor would be required to make timely payments to the trustee from such appropriations. Thus, purchasers of participations would be assured of timely payments of principal and interest without further action by the Congress.

Section 3. Reductions in new obligational authority

Subsection (a) amends section 305(c) of the FNMA Charter Act by reducing by \$450 million the aggregate potential authority of FNMA to purchase mortgages under its special assistance functions.

Subsection (b) would amend section 401(d) of the Housing Act of 1950 by reducing by \$300 million the borrowing authority of the college housing loan program. Both reductions are made possible by increased sales of participation certificates in existing loans.

Section 4. Office of Education revolving loan fund provisions

Subsection (a) of this section would amend section 303(c) of the Higher Education Facilities Act of 1963 to provide that appropriations for making academic facility loans would now be payable into the fund to be established by subsection (b) of this section.

Subsection (b) would add a new section 305 to the Higher Education Facilities Act of 1963 establishing a separate revolving fund for higher education academic facilities loans, available without fiscal year limitation. The total of new loans made from the fund in any fiscal year would be subject to limitations specified in appropriation acts. All appropriations available for academic facilities loans and all receipts from operations and from participation sales would be deposited in the fund. All loans, expenses, and payments would be paid from the fund, including expenses and payments to the Federal National Mortgage Association in connection with the sale of participations. The Commissioner would be required to pay from the fund into the Treasury interest on the net amount of appropriations used by the fund.

Section 5. Farmers Home Administration direct loan account provisions

Section 5 would amend section 338(c) of the Consolidated Farmers Home Administration Act of 1961 to transfer to the direct loan account

watershed protection and flood prevention loans, rural renewal loans, and resource conservation and development loans not now financed through revolving funds. The intent is to include among the loans eligible for pooling under section 2 all loans made by the Farmers Home Administration (including not only those in the direct loan account, but also those in the emergency credit revolving fund, rural housing direct loan account, agricultural credit insurance fund, and the rural housing insurance fund).

Section 6. Preservation of existing Veterans' Administration authority

Section 6 would make clear that nothing contained in this bill should be construed to repeal or modify the existing authority of the Administrator of Veterans' Affairs to enter into trust arrangements comparable to those contemplated by this bill. The intent of this section would be to authorize the Administrator of Veterans' Affairs to enter into trust arrangements either under the provisions of this bill, or under the provisions of section 1820(e) of title 38, United States Code.





89TH CONGRESS
2D SESSION

H. R. 14544

IN THE HOUSE OF REPRESENTATIVES

APRIL 20, 1966

Mr. PATMAN introduced the following bill; which was referred to the Committee on Banking and Currency

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Participation Sales Act
4 of 1966".

5 SEC. 2. (a) Section 302 (c) of the Federal National
6 Mortgage Association Charter Act is amended—

7 (1) by inserting "(1)" immediately following
8 "(c)";

9 (2) by inserting after "undertakings and activities"

1 a comma and "hereinafter in this subsection called
2 'trusts','";

3 (3) by striking out the words "offered to it by
4 the Housing and Home Finance Agency or its Admin-
5 istrator, or by such Agency's constituent units or
6 agencies or the heads thereof, or any first mortgages in
7 which the United States or any agency" in the first
8 sentence thereof and by inserting "and other types of
9 securities, including any instrument commonly known
10 as a security, hereinafter in this subsection called 'obliga-
11 tions,' in which the United States or any executive
12 department, agency,";

13 (4) by striking out the third sentence thereof and
14 substituting therefor the following: "Participations or
15 other instruments issued by the Association pursuant
16 to this subsection shall to the same extent as securities
17 which are direct obligations of or obligations guaranteed
18 as to principal or interest by the United States be
19 deemed to be exempt securities within the meaning of
20 laws administered by the Securities and Exchange Com-
21 mission."; and

22 (5) by striking out the fourth sentence thereof.

23 (b) Section 302 (c) of such Act is further amended by
24 adding the following:

25 "(2) Notwithstanding any other provision of law, the

1 head of any executive department, agency, or instrumentality
2 of the United States, hereinafter in this subsection called
3 the "trustor", is authorized to set aside a part or all of
4 any obligations held by him and subject them to a trust
5 or trusts and, incident thereto, may guarantee to the trustee
6 timely payment thereof. The trust instrument may provide
7 for the issuance and sale of beneficial interests or participa-
8 tions, by the trustee, in such obligations or in the right to
9 receive interest and principal collections therefrom; and may
10 provide for the substitution or withdrawal of such obliga-
11 tions, or for the substitution of cash for obligations. The
12 trust or trusts shall be exempt from all taxation. The trust
13 instrument may also contain other appropriate provisions
14 in keeping with the purposes of this subsection. Notwith-
15 standing any other provision of law, the Association may be
16 named and may act as trustee of any such trusts and,
17 for the purposes thereof, the title to such obligations
18 shall be deemed to have passed to the Association
19 in trust: *Provided*, That the trust instrument shall
20 provide that custody, control, and administration of the
21 obligations shall remain in the trustor subjecting the obliga-
22 tions to the trust, subject to transfer to the trustee in event
23 of default or probable default, as determined by the trustee,
24 in the payment of principal and interest of the beneficial
25 interests or participations. Collections from obligations sub-

1 ject to the trust shall be dealt with as provided in the instru-
2 ment creating the trust. The trust instrument shall provide
3 that the trustee will promptly pay to the trustor the full
4 net proceeds of any sale of beneficial interests or participa-
5 tions to the extent they are based upon such obligations or
6 collections. Such proceeds shall be dealt with as otherwise
7 provided by law for sales or repayment of such obligations.
8 The effect of both past and future sales of any issue of
9 beneficial interests or participations shall be the same, to
10 the extent of the principal of such issue, as the direct sale of
11 the obligations subject to the trust. Any trustor creating
12 a trust or trusts hereunder is authorized to purchase, through
13 the facilities of the trustee, outstanding beneficial interests
14 or participations to the extent of the amount of his respon-
15 sibility to the trustee on beneficial interests or participations
16 outstanding, and to pay his proper share of the costs and
17 expenses incurred by the Federal National Mortgage Asso-
18 ciation as trustee pursuant to the trust instrument, and for
19 these purposes may use any appropriated funds or other
20 amounts available to him for the general purposes or pro-
21 grams to which the obligations subjected to the trust are
22 related.

23 “(3) If any trustor shall guarantee to the trustee the
24 timely payment of obligations he subjects to a trust pursuant
25 to this subsection, and it becomes necessary for such trustor

1 to meet his responsibilities under such guaranty, he is au-
2 thorized to fulfill such guaranty by using any appropriated
3 funds or other amounts available to him for the general pur-
4 poses or programs to which the obligations subjected to the
5 trust are related.

6 “(4) The Association, as trustee, is authorized to issue
7 and sell beneficial interests or participations under this sub-
8 section, notwithstanding that aggregate receipts from obli-
9 gations subject to the related trust are or may become insuf-
10 ficient in amount to provide for the payment by the trustee
11 (on a timely basis out of current receipts or otherwise) of
12 all interest or principal on such interests or participations
13 (after provision for all costs and expenses incurred by the
14 trustee, fairly prorated among trustors) : *Provided*, That no
15 such beneficial interests or participations shall be issued in
16 relation to any obligations unless the trustee determines there
17 is a reasonable probability there will not be an insufficiency
18 as aforesaid, or unless the amounts issued are within aggre-
19 gate principal amounts authorized in advance in appropria-
20 tion Acts, and it shall be in order to include provisions
21 authorizing such issuance in an appropriation Act. When-
22 ever such an aggregate principal amount is so authorized,
23 there shall be established on the books of the Treasury as
24 indefinite appropriations such sums as may be necessary from

1 time to time to enable the trustor to pay the trustee such
2 insufficiency as the trustee may require on account of out-
3 standing beneficial interests or participations, and such trustor
4 shall make timely payments to the trustee from such appro-
5 priations, subject to and in accord with the trust instrument.”

6 SEC. 3. (a) Section 305 (c) of the Federal National
7 Mortgage Association Charter Act is amended by deleting
8 “by \$450,000,000 on July 1, 1966,”.

9 (b) Section 401 (d) of the Housing Act of 1950 is
10 amended by deleting “1968:” immediately preceding the
11 first proviso and by substituting therefor “1965, and 1967
12 and 1968:”.

13 SEC. 4. (a) Section 303 (c) of title III of the Higher
14 Education Facilities Act of 1963 is amended by striking out
15 the first nine words in the second sentence and substituting
16 therefor the following: “For the purpose of making payments
17 into the fund established under section 305”.

18 (b) Title III of the Higher Education Facilities Act of
19 1963 is further amended by adding after section 304 the fol-
20 lowing new section:

21 “REVOLVING LOAN FUND

22 “SEC. 305. (a) There is hereby created within the
23 Treasury a separate fund for higher education academic facili-
24 ties loans (hereafter in this section called “the fund”) which

1 shall be available to the Commisisoner without fiscal year
2 limitation as a revolving fund for the purposes of this title.
3 The total of any loans made from the fund in any fiscal year
4 shall not exceed limitations specified in appropriation Acts.

5 “(b) (1) The Commissioner is authorized to transfer to
6 the fund available appropriations provided under section
7 303 (c) to provide capital for the fund. All amounts re-
8 ceived by the Commissioner as interest payments or repay-
9 ments of principal on loans, and any other moneys, property,
10 or assets derived by him from his operations in connection
11 with this title, including any moneys derived directly or in-
12 directly from the sale of assets, or beneficial interests or par-
13 ticipations in assets, of the fund, shall be deposited in the fund.

14 “(2) All loans, expenses, and payments pursuant to
15 operations of the Commissioner under this title shall be paid
16 from the fund, including (but not limited to) expenses and
17 payments of the Commissioner in connection with sale,
18 under section 302 (c) of the Federal National Mortgage
19 Association Charter Act, of participations in obligations ac-
20 quired under this title. From time to time, and at least at
21 the close of each fiscal year, the Commissioner shall pay
22 from the fund into the Treasury as miscellaneous receipts
23 interest on the cumulative amount of appropriations paid out
24 for loans under this title or available as capital to the fund,

1 less the average undisbursed cash balance in the fund during
2 the year. The rate of such interest shall be determined by
3 the Secretary of the Treasury, taking into consideration the
4 average market yield during the month preceding each fiscal
5 year on outstanding Treasury obligations of maturity com-
6 parable to the average maturity of loans made from the fund.
7 Interest payments may be deferred with the approval of the
8 Secretary of the Treasury, but any interest payments so
9 deferred shall themselves bear interest. If at any time the
10 Commissioner determines that moneys in the fund exceed
11 the present and any reasonably prospective future require-
12 ments of the fund, such excess may be transferred to the
13 general fund of the Treasury.”

14 SEC. 5. Section 338 (c) of the Consolidated Farmers
15 Home Administration Act of 1961 is amended by striking
16 in the second sentence “and (8)” and inserting in lieu
17 thereof “(8) section 8 of the Watershed Protection and
18 Flood Prevention Act, as amended (16 U.S.C. 1006a);
19 (9) section 32 (e) of the Bankhead-Jones Farm Tenant
20 Act, as amended (7 U.S.C. 1011); and (10)”; and by
21 inserting in the fifth sentence after “title,” the following:
22 “section 8 of the Watershed Protection and Flood Prevention
23 Act, as amended, and section 32 (e) of the Bankhead-Jones
24 Farm Tenant Act, as amended,”.

1 SEC. 6. Nothing in this Act shall be construed to repeal
2 or modify the provisions of section 1820 (e) of title 38,
3 United States Code, respecting the authority of the Admin-
4 istrator of Veterans' Affairs.

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

By Mr. PATMAN

APRIL 20, 1966

Referred to the Committee on Banking and Currency



United States
of America

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Division of Legislative Reporting
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Congressional Record

PROCEEDINGS AND DEBATES OF THE 89th CONGRESS, SECOND SESSION

Vol. 112

WASHINGTON, WEDNESDAY, APRIL 20, 1966

No. 66

House of Representatives

The House met at 12 o'clock noon.

Rabbi Edward T. Sandrow, Congregation Beth El, Cedarhurst, N.Y., offered the following prayer:

Eternal God, Creator of all men regardless of race, color, or creed, we pray unto Thee with sincere and humble hearts. We find the problems of life difficult and our own wisdom and knowledge insufficient. We need Thee, Almighty, to help us face the challenge of these troubled and mediocre days. Have mercy upon our restless world. Grant all men the vision to strive for human brotherhood, so that peace and justice can be the normal experiences of our world. We pray for our youth, for their homes and schools so that they may be constantly awakened to the great ideas of faith and the worthy causes of our American way of life—the pursuit of liberty and human rights.

Give courage, O Lord, to the President and all the duly constituted authorities of our Nation. May we together press forward against the prejudices, the hatreds, the malices that still exist to the end that dignity, beauty, and love will be the lot of all men. May this be Thy will and let us say amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

PARTICIPATION SALES ACT

(Mr. PATMAN asked and was given permission to address the House for 1 minute, and to revise and extend his remarks.)

Mr. PATMAN. Mr. Speaker, today the President of the United States is sending a message to the Congress calling for legislation which will establish participation pools of Government assets. This legislation, if enacted, would create a more efficient system to make proper use of Federal Government funds and assets.

I strongly favor such legislation in that it will enable the administration and the Congress to further achieve the goals as set forth in the President's Great Society program.

Your Banking and Currency Committee will hold full and extensive hearings on this important legislation. Hearings shall commence on Thursday, April 21, at which time the Honorable Joseph W. Barr, Under Secretary of the Treasury, will present the administration's views on this matter, along with the Honorable Charles L. Schultze, Director of the Budget.

PARTICIPATION SALES MESSAGE FROM THE PRESIDENT

(Mr. ALBERT asked and was given permission to address the House for 1 minute, and to revise and extend his remarks.)

Mr. ALBERT. Mr. Speaker, I take this time to commend the President of the United States for recommending the legislation proposed in his participation sales message.

The participation sales technique is an efficient, flexible, and controlled method for channeling funds from the private credit market into Government lending programs. It is not new. The pooling of mortgages and loans held by Federal credit agencies and the sale of participations in the income and repayments from loans in the pool are techniques which have been used for several years by the Export-Import Bank, the Veterans' Administration, and the Federal National Mortgage Association.

What is new in the Sales Participation Act of 1966 is that President Johnson is recommending that we extend this loan pool technique to lending programs of additional Government agencies.

To those of us who are concerned that adequate congressional control over Government lending programs be maintained, it is important to note that this new legislation would do just that—it would not diminish congressional controls.

This legislation would extend the full participation technique to lending programs of the Farmers Home Administration, the lending programs for college housing, the lending programs for public facilities, and the lending programs of the Small Business Administration.

In order to coordinate the sale of participations, these operations would be centralized in a single agency, the Federal National Mortgage Association, or Fannie Mae as it is commonly called, which has already had substantial experience in participation sales in the mortgage pooling operations.

An important advantage of this program is that it would make possible the sale of participations in loans for which Congress has established an interest rate below the market rate. Yet it would do so in such a way as to fully preserve congressional prerogatives.

This legislation provides that appropriation acts must authorize in advance the amounts of participations which could be sold against those assets carrying relatively low interest rates. That provision assures that the appropriations safeguards of the legislative process would be applied to participation sales.

With the authority provided by this legislation, as President Johnson told us in January, net Government expenditures in fiscal 1967 will be reduced by \$4.7 billion through asset sales. This will be four times the total sales of assets we achieved in fiscal 1964.

So far as I am concerned, this measure stacks up as a good bill—one deserving approval by Congress this year.

It extends the efficiency and flexibility already proven by existing sales participation programs.

It takes nothing away from the controls that Congress should properly exercise over the many programs Congress itself originally authorized.

In fact, the legislation adds a new safety catch—action by the Appropriations Committees of the House and Senate prior to the pooling of certain Government loans with below-market interest rates.

I urge its approval.

THE SALES PARTICIPATION ACT OF 1966 SHOULD BE ENACTED

(Mr. REUSS asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. REUSS. Mr. Speaker, a primary objective of the Sales Participation Act of 1966, which President Johnson has transmitted to Congress, is to provide for both an orderly and economic "selloff" of assets of some of our Federal credit programs in the private credit market.

This, of course, is not a new idea.

In fact, it is a tried and tested idea. The sale of participation certificates would be handled through the already established facilities of the Federal National Mortgage Association.

We, in Congress, who are responsible for the creation of these Federal credit programs, now bear the responsibility for assuring the smooth flow of Federal credit loan paper into the private credit market.

This new legislation will, in my opinion, ease the problems which occur with the sales of assets. Otherwise, they could continue to grow and cause new headaches, not only for the competent debt management officials in the executive branch, but also, in time, for us in Congress.

Let me talk about just one of these problems:

We now have as many as half a dozen agencies selling their own paper, sometimes to a very limited market and often in competition with each other. These agencies have greatly different degrees of experience and expertise in this field. Some are very well qualified to carry on these sales, some are less so. We have found that the sale of assets can conflict with the Treasury's debt management operations, and this can have disturbing consequences.

The best technique we have at hand to cope with these problems is to group assets consisting of loan paper into pools and sell shares of participations in the pools. This is proposed in the legislation which we have received from the President.

The pools would gain diversity from the grouping of various kinds of loans. The sales would be centralized, expertly handled, and coordinated with the Treasury. Further, the participations would constitute an excellent and sought-after investment which would command a broad market.

As I stated earlier, the technique is not new. The Export-Import Bank has used it, since 1962, to sell about \$1.7 billion of its direct loans which otherwise might not have been marketable. The Federal National Mortgage Association, acting under the Housing Acts of 1964 and 1965, has sold \$1.6 billion of participation certificates in its own mortgage holdings and those of the Veterans' Administration.

The basic provisions of the President's proposal are taken directly from the Housing Acts of 1964 and 1965. The earlier act authorized FNMA to act as trustee for the sale of participations in pools of first mortgages. The 1965 act extended this authority.

The President's proposal would further broaden use of the pooling technique by extending it to all agencies of the Federal Government which hold financial assets. Sales of participations would be coordinated by FNMA.

The cost of selling participations through FNMA, judging from past experience, might be about one-fourth of 1 percent more than direct Treasury borrowings for comparable maturities. In time, as the participation certificates gain wider acceptance and marketability, they may command rates closer in line with Treasury issues. And, of course, asset sales through participation certificates will command lower rates than would the direct sale of the underlying loans.

Mr. REES. Mr. Speaker, I am in favor of the proposed Participation Sales Act of 1966—which President Johnson has just transmitted to Congress.

Explaining the need for this legislation, President Johnson says that direct Federal lending programs neither can nor should carry the entire burden of financing essential activities that otherwise would not get adequate financial support. I agree with that, Mr. Speaker.

And I also agree with the President's statement in his letter to the Speaker of the House and the President of the Senate, in transmitting this legislation to Congress:

Under our system of free enterprise it is far better for the Government to mobilize private capital to these ends.

Further, I agree with the point made by the President that "it is far better for the Government to stimulate and supplement private lending rather than to substitute for it."

The proposed Participation Sales Act of 1966 is—and I would like to emphasize this point—procedural legislation, in all essential respects. It will not, and I repeat not, create a new set of subsidized Government loan programs.

President Johnson says that the substitution of private for public credit—and this is what this legislation is designed to do—means "sound financing for worthwhile projects with a minimum of Federal participation"—and that is convincing to me.

This legislation carries forward the process and policies laid down by three Presidents—Presidents Eisenhower, Kennedy, and Johnson over the past 12 years or more. I urge approval of this legislation.

Mr. ANNUNZIO. Mr. Speaker, some of the Members on the other side of the aisle in recent weeks have made statements on the floor of this House and entered material in the Record impugning the motives behind the proposed Participation Sales Act which we received from the President today.

The two most frequently heard criticisms of this legislation that we have heard are that it is a piece of budget gimmickry and a means to back-door financing.

Mr. Speaker, this is a partisan charge. I hope when I have finished my remarks you will realize just how partisan it is.

First. The charge of budget gimmickry relates to the treatment of the figures reflecting the sales of assets in the budget. As all of us know, the sales of assets are treated in the budget as negative expenditures rather than as receipts. Those who made the charge of

budget gimmickry should be reminded that the procedure is neither new with this bill nor with this administration. It is the conventional budget treatment given the entire program of asset sales since the administration of President Eisenhower in the midfifties.

Second. The charge of back-door financing relates to the supposed possibility of expanding programs and starting new ones without congressional approval or adequate congressional control, using the proceeds from asset sales. Anyone who has read the President's letter of transmittal or who has looked at the legislation or who has listened to the statements made here today by my colleagues knows that this charge has no foundation in fact.

Congressional control over Federal credit programs would be maintained under the provisions of the Participation Sales Act. In some cases—those being the programs in which interest rates to the alternate borrower are below credit market rates—congressional control would be augmented.

That is the fact of the matter—congressional control would be maintained or increased. Backdoor financing is an unfounded accusation.

To show you how partisan these unfounded charges are, let me read you two brief quotations:

Private capital will be gradually substituted for the Government investment until Government funds are fully repaid and the private owners take over responsibility for the program.

That is not a quotation from President Johnson. That is not a quotation relating to the Participation Sales Act of 1966.

That is a quotation from President Eisenhower's budget message issued in January 1955. It states the goal of his administration in this field, which was to mobilize private capital to the greatest extent feasible in the administration of Federal credit programs. The second quotation is this:

The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets.

That is not a statement from President Johnson's budget message or economic report. Nor is it from any statement by the majority of this Congress.

It is from the minority report of the House Ways and Means Committee Report of the 88th Congress, 1st session—May 1963—on H.R. 6009, which was to provide temporary increases in the public debt limit. It was signed by these Republican members of the committee, a number of whom are here today; Mr. BYRNES, Mr. BAKER, Mr. CURTIS, Mr. KNOX, Mr. UTT, Mr. BETTS, Mr. ALGER, Mr. DEROUNIAN, Mr. SCHNEEBELI, and Mr. COLLIER.

The minority report expressed the view of the Republican members of the committee that the administration should not come to the Congress seeking an increase in the debt limit until it had made every effort to reduce its salable assets, both from its loan portfolio and from its stockpile of strategic materials.

This shows one of two things: Either the minority members of 3 years ago

were completely in error, or there has been a remarkable change in their point of view since President Johnson decided to move further in the direction taken under President Eisenhower back in the 1950's.

GENERAL LEAVE

Mr. REUSS. Mr. Speaker, I ask unanimous consent that all Members may have permission to extend their remarks on the subject of Sales Participation Act of 1966, following the remarks on that subject.

The SPEAKER. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

COMMITTEE ON APPROPRIATIONS

Mr. WHITTEN. Mr. Speaker, I ask unanimous consent that the Committee on Appropriations may have until midnight Friday, April 22, 1966, to file a privileged report on the Department of Agriculture appropriation bill for the fiscal year 1967.

Mr. RUMSFELD reserved all points of order on the bill.

The SPEAKER. Is there objection to the request of the gentleman from Mississippi?

There was no objection.

CORRECTION OF VOTE

Mr. HULL. Mr. Speaker, on rollcall No. 65 I am recorded as not voting. I was present and voted "yea." I ask unanimous consent that the permanent RECORD and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Missouri?

There was no objection.

CORRECTION OF VOTE

Mr. HECHLER. Mr. Speaker, on rollcall No. 66 I am recorded as not voting. I was present and voted "yea." I ask unanimous consent that the permanent RECORD and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from West Virginia?

There was no objection.

NAVY DID A SPACE AGE JOB WITH STONE AGE TOOLS

(Mr. ROGERS of Florida asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. ROGERS of Florida. Mr. Speaker, the Navy spent some 80 days to recover the H-bomb lost off the coast of Spain this January. The Navy also spent hundreds of thousands of tax dollars on this job. It was an expensive lesson, and if the Navy's undersea technology had been able to keep pace with our phenomenal progress in space technology that bomb could have been recovered immediately and at considerable savings.

In less than 10 years, outer space exploration has produced space vehicles which know no horizon. However, the Navy does not yet produce deep-diving vehicles of the same degree of sophistication found in the space program vehicles.

The H-bomb recovery shows that the Navy was doing a space age job with stone age tools.

For the past 50 years the Navy has sporadically considered diving technology, starting in 1915 with its first lost submarine, and including the *Thresher* disaster in April 1963. Each incident showed that the Navy was unprepared to conduct deep-sea recovery operations. The H-bomb incident demonstrates that more progress is needed. At the present time, Navy programs plan development of undersea vehicles over a 5-year period on a basis amounting to roughly 10 percent of the NASA budget for 1 year alone.

It is clear that insufficient emphasis is being given within the Defense Department to the problem of developing Navy undersea exploration vehicles sufficient to maintain this Nation's defense posture. This situation must be corrected immediately.

GET BACK TO FUNDAMENTALS

(Mr. JONES of Missouri asked and was given permission to address the House for 1 minute.)

Mr. JONES of Missouri. Mr. Speaker, I would like to take this opportunity to call to the attention of my colleagues, an article which appears in the current, April 25, issue of the U.S. News & World Report, being the full text of an address by the Honorable Charles E. Whittaker, of Kansas City, who in 1962 retired as an Associate Justice of the U.S. Supreme Court. Previously, I have expressed regret that Justice Whittaker retired from the Supreme Court, at a time when there is a need for men of his caliber to serve. The advice given by Justice Whittaker when he points out the need to "get back to fundamentals—the Ten Commandments and old-fashioned respect for truth and honesty—before it is too late" is a warning that needs to be heeded. It is a real tragedy that more members of our High Court do not embrace the philosophy of Justice Whittaker, who in the address referred to, points out that "defiance of law, falsifying such terms as 'liberal,' 'conservative,' 'civil rights,' 'civil disobedience,' and so forth, are some of the things that are threatening America." Mr. Speaker, I think it is time that we stop, look, and think, while there is still time to "return to simple honesty." Again, I say, Mr. Speaker, if you have not read the address delivered by Justice Whittaker on April 12 at the University of Kansas, you should read it in the current issue of U.S. News & World Report, beginning on page 58.

FREE ELECTIONS IN SOUTH VIETNAM

(Mr. VIVIAN asked and was given permission to address the House for 1 min-

ute and to revise and extend his remarks.)

Mr. VIVIAN. Mr. Speaker, the recent agreement of the South Vietnamese Government and the Buddhist leaders to hold elections in August promises the people of South Vietnam an opportunity to deal with their country's problems by peaceful political means. The prospective elections provide an occasion for the establishment of a representative government in South Vietnam. From the beginning, the American commitment has been designed to assure the people of South Vietnam precisely this kind of opportunity. As the history of North Vietnam shows, without an American presence, the people of South Vietnam probably could not have found such means for self-expression. As President Johnson and Secretary Rusk have repeatedly stated, the conflict in Vietnam is both political and military. Therefore political as well as military means are required for its solution.

Now basic American ideals, and the stated aims of our policy in South Vietnam require that U.S. policy in the coming months be directed toward assuring that these elections be conducted in the most free and open manner possible. Our activities in South Vietnam in the coming months should, therefore, be designed to assure the widest possible participation in the entire election process by all elements of the population.

This is an essential precondition for any settlement of the conflict that reflects the interests of all the people of South Vietnam.

Mr. Speaker, the Government of the United States should actively encourage and facilitate this process in every possible way.

THE BOSTON CELTICS MAKE CIVIL RIGHTS AS WELL AS BASKETBALL HISTORY

(Mr. O'NEILL of Massachusetts asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. O'NEILL of Massachusetts. Mr. Speaker, at this time I would like to congratulate the world's champion Boston Celtics, who for 8 years have been the world's champions in basketball, for their activities in respect to civil rights. In 1950 the Boston Celtics were the first professional team in the National Basketball League ever to hire a Negro. In the year 1966 they were the first professional team that ever fielded as a starting lineup a complete Negro team.

Mr. Speaker, as of Monday this week the Boston Celtics appointed as their coach their superstar big Bill Russell, the first Negro who has ever been appointed as manager and coach of a major basketball team, or of any major sporting team.

The Boston Celtics have acted the part of real champions in the way they have conducted themselves. I hope the pattern will be an example for all other sporting organizations.

My congratulations go to the Boston Celtics, the team, the players, and the management.

"Red" Auerbach is not only the world's greatest coach, but also its greatest sportsman.

BALLYHOO FOR THE FOREIGN AID PROGRAM

(Mr. HAYS asked and was given permission to address the House for 1 minute, and to revise and extend his remarks.)

Mr. HAYS. Mr. Speaker, on the 5th of April the new Deputy Under Secretary of State for Latin America, Mr. Gordon, appeared before the House Committee on Foreign Affairs in ballyhooing the foreign aid program.

Mr. Speaker, at that time I asked the gentleman to provide me with one example of a project which had been sponsored in Latin America, which had been successful. In fact, I said, not to limit it too much, "if you cannot find one in Latin America, find one anywhere in the world and tell me where it is; I would like to go look at it."

He assured me that he would not only find one, but would find one right away. Fifteen days have passed, and I have not heard from the gentleman. I would have thought that if he had a successful project he could have found out about it by this time.

CORRECTION OF VOTE

Mr. FINO. Mr. Speaker, on rollcall No. 66 yesterday I was recorded as not voting. I was present and voted "no". I ask unanimous consent that the permanent RECORD and Journal be corrected accordingly.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

FINO OPPOSES GOVERNMENTWIDE LOAN POOLS

(Mr. FINO asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. FINO. Mr. Speaker, the President's message today calling for a governmentwide loan pooling and refinancing program to be run through Fannie Mae represents an unparalleled power grab which strikes at the very root of our congressional process.

If we permit and allow Government agencies to circumvent full congressional scrutiny by refinancing their paper for funds, we will be creating not only a menace to the Congress but a serious threat to private credit. We will be creating an economic and political monster.

Let us make no mistake about it. Socialized lending is the inevitable end-product of a full-scale pooling program. Socialized credit will grow and grow with the pools until most bankers become civil servants in title or fact.

Expansion of Government loan programs beyond complete congressional scrutiny is very attractive to a free-wheeling administration, because it presents a marvelous opportunity for budget gimmickry.

Under this program, the administration can sidestep any budget deficit by a

white elephant sale of assets at an attractive rate. Agencies can go to Fannie Mae as indigents go to pawnbrokers and hockshops. Budget deficits can be overcome—on paper—by the sale of a few billion dollars worth of loan participations. The program proposed in this message can be used to make many a budget safe for waste and extravagance which could not otherwise survive the spotlight of a deficit budget.

I believe that this program is a fiscal and monetary monster. It could only have been unleashed by an administration dedicated to economic rule or ruin.

This program is a cruel paradox. It will cost the taxpayers most in high refinancing costs in just those years were inflationary budget deficits have stimulated participation sales budget gimmickry. It will inflate the volume of Government loans in just those budget deficit years where the Government is already spending too much on too many programs. The costs of refinancing in this program will add to the taxpayer's burden so that the Government may, through deceit, spend more tax dollars than otherwise.

This program makes no economic sense because it is a political program. No economist would seek it—only a power-hungry administration.

This message is the message of a would-be economic Caesar. Only a blank-check Congress in every sense of the word would betray future Congresses and generations of citizens and taxpayers by passing it.

I have heard arguments that refinancing of this sort is the private enterprise approach because it brings in private funds. This is hypocrisy, pure and simple. Many of the loans proposed to be pooled in the fiscal 1967 budget were originally made in unfair competition with private credit. The time to bring in private credit was before the Government loan was made, not at some later date as a budget trick. For example, the 1967 budget proposed Farmers' Home Administration loans for pooling and a January 1966 report of the General Accounting Office said that many such loans were made in competition with private credit.

If this program is enacted, Congress will be crippled, the economy will be twisted and the budget will be warped out of recognition. This program also sows the seeds of socialized banking. All this will be laid at the feet of an economic Caesar in the White House.

FEDERAL HOCKSHOP CAN FINANCE FOREIGN AID

(Mr. WIDNALL asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. WIDNALL. Mr. Speaker, under the administration's proposed Participation Sales Act of 1966, the Federal National Mortgage Association—FNMA—is to become a financing agency for other Government lending agencies. The budget for fiscal year 1967 special analyses states:

Legislation is being proposed to authorize a Government-wide program for sale of participations in outstanding direct loans.

In fact, this will make FNMA a Federal hockshop.

The budget estimates that at the close of June 30, 1966, there will be outstanding \$33.1 billion direct loans under various Federal credit programs. The largest and most rapidly growing—from the standpoint of dollar volume—of the Federal loan programs is that of the Department of State through its Agency for International Development. At the close of fiscal year 1965 the volume of direct loans outstanding made by this Agency was \$9 billion. At the close of fiscal year 1966 the estimated outstanding volume is \$10.5 billion. At the close of fiscal year 1967 the estimated outstanding volume is \$12 billion.

FNMA in its new role of Federal hockshop could sell participations in a pool of such loans. It makes no difference that these AID direct loans bear interest in some instances as low as three-fourths percent per year or that in some cases they have maturities as long as 40 years. The legislation proposed authorizes appropriations for any agency pooling its loans with FNMA in an amount sufficient to make up any deficiency between income received on the loans, and interest paid on participations sold on the pooling of such loans. FNMA thus will not suffer any loss so it is painless financing for FNMA.

Obviously these AID loans are non-saleable and participations in a pool of such loans likewise would be nonsaleable if FNMA did not guarantee the payment of principal and interest on the participations sold and if that guarantee was not backed up by the unlimited draw of FNMA on the U.S. Treasury for any funds that might be needed to pay such principal and interest.

Clearly, FNMA is selling U.S. Government credit. It is pure fiction that FNMA is indirectly selling foreign aid loans.

Let us explore the budgetary possibilities of such a transaction. As noted above, AID holdings of foreign aid loans are expanding at a rate of \$1.5 billion per year. Under the present system, that is a \$1.5 billion charge per year against the administrative budget. Under the participation sales device, the only charge against the administrative budget would be the appropriation to make up the deficiency between the income received on the loans pooled and the interest cost of the participations sold. Assume such loss differential to be 3 percent, the budget charge then would be 3 percent of \$1.5 billion or only \$45 million per year. Financing foreign aid becomes almost painless insofar as the budgetary impact is concerned.

Can the Congress perpetrate such a hoax on itself and the public?

SIX HUNDRED AND EIGHTY-NINE DOLLARS A MONTH TAX FREE FROM TWO FEDERAL POVERTY PROGRAMS

(Mr. COLLIER asked and was given permission to address the House for 1 minute.)

Mr. COLLIER. Mr. Speaker, the case of the Michigan man who has been drawing \$698 a month tax free from two different Federal poverty programs is an example of the unwieldy overlapping operation of the mushrooming Federal bureaucracy.

Writes one of my constituents:

My wife and I just paid the balance of our income tax on my \$76 a week take-home pay the day before I read this article in the newspaper. My wife works part time for \$32.50 a week. This man gets \$146 more per week tax free from the public trough than we earn working a combined 62 hours a week.

How many more disgraceful cases like this are buried in the Great Society's costly and wasteful programs at the expense of those of us who are struggling to support our families and pay our taxes? He said:

Let me tell you Congressmen, I'm fed up.

To my constituent I can only say that so are millions of other Americans—and particularly many in my congressional district based upon what I heard back home over the Easter recess.

FEDERAL HOCKSHOP CAN FINANCE THE U.S. TREASURY

(Mr. BROCK asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. BROCK. Mr. Speaker, the administration has submitted today its proposed Participation Sales Act of 1966. Under the proposal the Federal National Mortgage Association—FNMA—would be authorized to sell beneficial interests or participations in loans pooled by Government agencies. The loans pooled would be subject to a trust of which FNMA would be trustee. FNMA would unconditionally guarantee principal and interest of the participations sold and that guarantee would be backed up by the unlimited right of FNMA to borrow funds from the U.S. Treasury in whatever amounts might be necessary to make good on FNMA's guarantee of principal and interest on participations sold.

The pooling arrangement with FNMA would apply to "any obligations in which the United States or any agency or instrumentality thereof may have a financial interest." Such broad language, of course, includes any departments of the Federal Government, including the Department of the Treasury itself. That leads to the ridiculous situation in which FNMA could sell participations in loans held by the U.S. Treasury while, at the same time, the only reason the participations are readily salable is the fact that they enjoy the unlimited indirect guarantee of the U.S. Treasury.

That FNMA could thus finance the U.S. Treasury is more than a hypothetical possibility. In 1945, the U.S. Treasury made a \$3¾ billion loan to the United Kingdom. The loan bears 2 percent interest and originally was repayable in 50 installments beginning December 31, 1951. In 1957, an amendment of the terms of the loan permitted the deferral of up to seven payments of principal and/or interest with any deferred

principal payments to be added on at the final maturity of the loan. Principal and interest was deferred in the years 1957, 1964, and 1965. The final maturity of the loan is, therefore, 2004. As of the close of 1965 there remained outstanding \$3.15 billion of principal. If one were to guess at the market price of such a loan, a generous appraisal would be a price of 60—or 60 cents on the dollar.

Under the administration's proposal, the Treasury Department could pool that loan, subject it to the FNMA trust, and FNMA could sell \$2.5 billion of participations. While that would amount to but 80 percent of the face value of the loan, it actually would amount to 133 percent of the probable market value of the loan. Nevertheless, the participations would be readily salable in the market because of the FNMA guarantee which in turn is backed up by an unlimited draw on the U.S. Treasury.

Why might the Treasury want to do this? The reason would be the same as for any other Government agency for which FNMA would sell participations in a pool of loans. Proceeds of the participations sold go to the agency pooling the loans which in turn could use the receipts to make additional loans. The Treasury, the same as any other department or agency has need for funds. Treasury might want to make another British loan to bolster the British balance-of-payments position. Likewise, the Treasury Department might want to use such proceeds to extend billion dollar credits to Latin America or southeast Asia.

Low-interest rates on such new commitments would be no impediment, because the administration proposal would authorize appropriations to make up any difference principal and interest received on loans that were pooled and principal and interest paid on participations sold. The new loans would not even appear in the budget because proceeds from the participations sold would be used to offset such loans. In the absence of participation sales, such expenditures would appear in the budget as an item of expense.

Thus, interest rates paid by the taxpayer would be considerably higher than current Federal debt costs, and the dollar budget figure would be lower. As a result, we the taxpayer are forced to finance our own delusion.

Mr. EVINS of Tennessee. Mr. Speaker, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from Tennessee.

Mr. EVINS of Tennessee. I trust that the gentleman will support this bill. This was originally inaugurated by President Eisenhower at the time rather than have direct appropriations.

Mr. BROCK. The gentleman is partially correct. The Eisenhower proposal was used to reduce the national debt.

Mr. EVINS of Tennessee. I trust that the gentleman will support this legislation, which is very much needed.

OPENING OF NATIONAL AIRPORT TO SMALL AND MEDIUM JETS

(Mr. GRIDER asked and was given permission to address the House for 1 minute, and to revise and extend his remarks.)

Mr. GRIDER. Mr. Speaker, the opening of National Airport to small and medium jets next Monday is of utmost importance to the citizens of Memphis and the Midsouth.

I would like to commend Gen. William McKee and the others of the Federal Aviation Agency for taking this progressive step in spite of criticism from some sources who take a strictly local view.

In fact, there is a certain irony when some critics loudly proclaim Washington is a national city and not entitled to home rule and then turn around and insist the convenience of travellers from throughout the Nation should not be considered by opening jets to National Airport.

Mr. William C. Mieher, president of the Memphis Area Chamber of Commerce, summed it up well:

Permission for small and medium jets to land at Washington National will make the transaction of business in Washington infinitely more convenient for Memphians and midsoutherners whose duties lead them there. Neither Dulles nor Friendship Airport can be construed as convenient for our citizens who wish to travel by airline to Washington. Further, with National open to small and medium jets, we can expect more and better service to and from Washington. With propeller planes rapidly being phased out by our commercial airlines, the importance of this decision can readily be seen.

The people of Memphis will now be 20 to 30 minutes closer to the Nation's Capital when Braniff begins flying jets into National Airport. We have been assured by American Airlines that it will begin jet service at an early date.

This is a step forward, and I fully approve.

Mr. CEDERBERG. Mr. Speaker, will the gentleman yield?

Mr. GRIDER. I yield to the gentleman from Michigan.

Mr. CEDERBERG. Mr. Speaker, I want to associate myself with the gentleman's remarks. I think he is exactly correct, and I think it is important that the FAA took this position.

Mr. GRIDER. I thank the gentleman.

COMMITTEE ON RULES

Mr. ALBERT. Mr. Speaker, I ask unanimous consent that the Committee on Rules may have until midnight tonight to file certain privileged reports.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

SUBCOMMITTEE ON EDUCATION OF THE COMMITTEE ON EDUCATION AND LABOR

Mr. ALBERT. Mr. Speaker, on behalf of the gentleman from Illinois [Mr. PUCINSKI], I ask unanimous consent that the Subcommittee on Education of the Committee on Education and Labor may be permitted to sit while the House is in session today during general debate.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

SUBCOMMITTEE ON PUBLIC HEALTH OF THE COMMITTEE ON INTER- STATE AND FOREIGN COMMERCE

Mr. ALBERT. Mr. Speaker, on behalf of the gentleman from Oklahoma [Mr. JARMAN], I ask unanimous consent that the Subcommittee on Public Health and Safety of the Committee on Interstate and Foreign Commerce may be permitted to sit during general debate today.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

Mr. GERALD R. FORD. Mr. Speaker, reserving the right to object, I have not been informed that this has been cleared with the ranking minority member. The case was such in the other requests.

Mr. ALBERT. Mr. Speaker, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the gentleman from Oklahoma.

Mr. ALBERT. Mr. Speaker, I do not ask for these requests unless they are cleared. The note which was sent to me indicated that the gentleman from Illinois [Mr. SPRINGER], had cleared this request.

Mr. GERALD R. FORD. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

CALL OF THE HOUSE

Mr. PELLY. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 67]

Abbitt	Green, Oreg.	Relfel
Anderson, Ill.	Hanna	Rivers, Alaska
Ayres	Hansen, Idaho	Roberts
Burleson	Harvey, Ind.	Roncalio
Casey	Keith	Rooney, N.Y.
Colmer	Kelly	Roudebush
Conyers	King, Calif.	Staggers
Corman	Laird	Stubblefield
Delaney	McDowell	Sweeney
Dent	McEwen	Teague, Tex.
Dowdy	Mathias	Toil
Dwyer	Matthews	Udall
Evans, Colo.	Moeller	Utt
Feighan	Multer	Walker, Miss.
Flynt	Murray	Weltner
Fuqua	O'Hara, Mich.	Williams
Glaimo	Powell	Willis

The SPEAKER. On this rollcall 381 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

AUTHORIZATION FOR THE COMMITTEE ON THE JUDICIARY TO CONDUCT STUDIES AND INVESTIGATIONS

Mr. SMITH of Virginia. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 777 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

H. RES. 777

Resolved, That, for the purposes of the studies and investigations specified in clause (1) and clause (7) of H. Res. 19, Eighty-ninth Congress, approved by the House of Representatives on February 16, 1965, the Committee on the Judiciary is hereby authorized to send fifteen of its members and six of its employees, three from the majority staff and three from the minority staff, to be divided into three special subcommittees: to investigate refugee matters, to inspect, study, and observe the overseas operations of the United Nations High Commission for Refugees and to attend the fifteenth session of the Executive Committee of the United Nations High Commission for Refugees; to inspect, study, and observe the overseas operations of the Intergovernmental Committee for European Migration and to attend the twenty-seventh session of the Executive Committee and the twenty-fifth session of the Council of the Intergovernmental Committee for European Migration; to inspect, study, and observe the overseas operation of the Submerged Lands Act and the Outer Continental Shelf Act. Each subcommittee is authorized to sit and act whether the House has recessed or has adjourned, and to hold such hearings as it deems necessary: *Provided*, That the subcommittee shall not undertake any investigation of any subject which is being investigated by any other committee of the House.

Notwithstanding section 1754 of title 22, United States Code, or any other provision of law, local currencies owned by the United States shall be made available to the Committee on the Judiciary of the House of Representatives and employees engaged in carrying out their official duties under section 190(d) of title 2, United States Code: *Provided*, That (1) no member or employee of said committee shall receive or expend local currencies for subsistence in any country at a rate in excess of the maximum per diem rate set forth in section 502(b) of the Mutual Security Act of 1954, as amended by Public Law 88-633, approved October 7, 1964; (2) no member or employee of said committee shall receive or expend an amount for transportation in excess of actual transportation costs; (3) no appropriated funds shall be expended for the purpose of defraying expenses of members of said committee or its employees in any country where counterpart funds are available for this purpose.

That each member or employee of said committee shall make to the chairman of said committee an itemized report showing the number of days visited in each country whose local currencies were spent, the amount of per diem furnished, and the cost of transportation, if furnished by public carrier; or if such transportation is furnished by an agency of the United States Government, the identification of the agency. All such individual reports shall be filed by the chairman with the Committee on House Administration and shall be open to public inspection.

The SPEAKER. The gentleman from Virginia is recognized for 1 hour.

Mr. SMITH of Virginia. Mr. Speaker, I yield 30 minutes to the gentleman from Tennessee [Mr. QUILLEN], and I yield myself such time as I may consume.

Mr. Speaker, this is one of the travel resolutions, which is the ordinary and usual thing that the House grants to the Committee on the Judiciary in order to take such trips as may be necessary in the performance of their duties with respect to certain matters coming under their jurisdiction in connection with the foreign countries, such as immigration, and various and sundry matters.

It is the usual resolution.

Does the gentleman from Tennessee desire to make any statement?

(Mr. QUILLEN asked and was given permission to revise and extend his remarks.)

Mr. QUILLEN. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, as the able gentleman from Virginia, the distinguished chairman of the House Rules Committee, has explained, this is the standard procedure under the rules laid down by the House.

Mr. Speaker, I know of no objection to the resolution, and I reserve the balance of my time.

Mr. RYAN. Mr. Speaker, House Resolution 777 authorizes funds for the Judiciary Committee to "inspect, study, and observe" the overseas operations of three subjects which are within the committee's jurisdiction: refugee matters, European migration, and the Submerged Lands Act.

While it may be useful for the committee to investigate matters overseas, I think that we should consider the committee's obligation to investigate certain matters here at home.

I am referring, of course, to the operation of the Civil Rights Acts and the Voting Rights Act of 1965.

In the view of the Judiciary Committee, submerged lands have continued to warrant a special subcommittee. Are we to tell the people of the United States that the protection of their civil rights warrant less?

In the view of the Judiciary Committee, refugee matters, European migration, and the Submerged Lands Act warrant the expense and time of 3 overseas trips by 15 Members of Congress. Are we to tell the people of the United States that civil rights and voting rights warrant less time and expense?

My admiration for the distinguished chairman of the Judiciary Committee, my friend and colleague from New York [Mr. CELLER], is immense. His leadership has been instrumental in the enactment of civil rights legislation.

Surely he, and the other distinguished members of his committee, must fully recognize the need to oversee the monumental legislation which they have passed.

The responsibility of this body to scrutinize the operation of the Voting Rights Act was emphasized time and again in the historic debate over the seating of the Mississippi congressional delegation last September. This point was emphasized both by those who supported the challenge and by those who opposed it. Indeed, it was even underlined in the report of the House Administration Committee. The committee report recommended that "the House should make every effort to scrutinize with great care all future elections."

Mr. Speaker, the Voting Rights Act of 1965 and the Civil Rights Acts are not being fully enforced. Members who are concerned with the effective implementation of civil rights legislation often act on an ad hoc basis, as we did 2 weeks ago when members of the civil rights steering committee of the Democratic study group met with the Attorney General to discuss the progress of voter registration in Sunflower County, Miss. Such mat-

Flood	Long, Md.	Reuss
Fogarty	Love	Rhodes, Pa.
Foley	McCarthy	Rodino
Ford,	McDade	Rogers, Colo.
William D.	McDowell	Rogers, Fla.
Fraser	McFall	Rogers, Tex.
Frelinghuysen	McGrath	Ronan
Friedel	McVicker	Rooney, Pa.
Fulton, Tenn.	Macdonald	Rosenthal
Gallagher	Machen	Rostenkowski
Garmatz	Mackay	Roush
Gialmo	Mackie	Roybal
Gibbons	Madden	Ryan
Gilbert	Mahon	St Germain
Gonzalez	Matsunaga	St. Onge
Grabowski	Meeds	Saylor
Gray	Miller	Scheuer
Green, Pa.	Minish	Schlesler
Greigg	Mink	Schmidhauser
Grider	Moeller	Schweiker
Griffiths	Monagan	Secret
Hagen, Calif.	Moorhead	Senner
Halpern	Morgan	Shibley
Hamilton	Morris	Sickles
Hanley	Morrison	Sist
Hanna	Morse	Slack
Hansen, Iowa	Moss	Smith, Iowa
Hansen, Wash.	Murphy, Ill.	Stalbaum
Hathaway	Murphy, N.Y.	Stratton
Hawkins	Natcher	Sullivan
Hays	Nedzi	Tenzer
Hechler	Nix	Thomas
Helstoski	O'Brien	Thompson, N.J.
Hicks	O'Hara, Ill.	Thompson, Tex.
Hollifield	O'Hara, Mich.	Todd
Holland	O'Konski	Tunney
Howard	Olsen, Mont.	Tupper
Hull	Olson, Minn.	Ullman
Huot	O'Neill, Mass.	Van Deerlin
Irwin	Patman	Vanik
Jacobs	Patten	Vigorito
Joelson	Pepper	Vivian
Johnson, Calif.	Perkins	Walker, N. Mex.
Johnson, Okla.	Philbin	Watts
Karsten	Pickle	White, Tex.
Karth	Pike	Widnall
Kee	Poage	Wilson,
Keogh	Powell	Charles H.
King, Utah	Price	Wolff
Kirwan	Pucinski	Wright
Kluczynski	Purcell	Yates
Krebs	Race	Young
Kunkel	Redlin	Zablocki
Kupferman	Rees	
Leggett	Resnick	

NOT VOTING—49

Abbitt	Green, Ore.	Staggers
Anderson, Ill.	Griffin	Steed
Ashley	Harvey, Ind.	Stubblefield
Ayres	Herlong	Sweeney
Battin	Kelly	Teague, Tex.
Burleson	King, Calif.	Toll
Casey	Laird	Udall
Colmer	Mathias	Utt
Delaney	Matthews	Waggonner
Dent	Multer	Walker, Miss.
Dingell	Murray	Watson
Dowdy	Relfel	Weltner
Dwyer	Rivers, Alaska	White, Idaho
Edwards, Calif.	Roberts	Williams
Feighan	Roncallo	Willis
Flynt	Rooney, N.Y.	
Fuqua	Roudebush	

So the resolution was rejected.

The Clerk announced the following pairs:

On this vote:

Mr. Flynt for, with Mr. Rooney of New York against.

Mr. Williams for, with Mr. King of California against.

Mr. Waggonner for, with Mr. Delaney against.

Mr. Abbitt for, with Mrs. Kelly against.

Mr. Roudebush for, with Mr. Multer against.

Mr. Colmer for, with Mr. Feighan against.

Mr. Watson for, with Mr. White of Idaho against.

Mr. Laird for, with Mr. Staggers against.

Mr. Walker of Mississippi for, with Mr. Ashley against.

Mr. Utt for, with Mr. Dent against.

Mr. Battin for, with Mr. Dingell against.

Mr. Herlong for, with Mr. Toll against.

Until further notice:

Mr. Roberts with Mr. Casey.

Mr. Sweeney with Mr. Burleson.

Mr. Edwards of California with Mr. Dowdy.

Mr. Udall with Mr. Teague of Texas.

Mr. Steed with Mr. Roncallo.

Mr. Matthews with Mr. Willis.

Mr. Fuqua with Mrs. Green of Oregon.

Mr. Stubblefield with Mr. Weltner.

Mr. PASSMAN changed his vote from "nay" to "yea."

The result of the vote was announced as above recorded.

The doors were opened.

GENERAL LEAVE TO EXTEND REMARKS

Mr. REUSS. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to extend their remarks in connection with House Resolution 756.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

WHY WE SHOULD ENACT LEGISLATION TO POOL LOANS

Mr. PATMAN. Mr. Speaker, the American economy benefits immensely from the fruitful partnership between public and private initiative. Nowhere is this more evident than in the varied Federal programs to assist and stimulate the flow of private credit.

The home mortgage insurance and guarantee programs of the Federal Housing Administration and the Veterans' Administration, the many programs of agricultural credit assistance, the lending assistance rendered by the Small Business Administration, and more recently the credit aids embodied in the college housing program and the student loan program—all these bear witness to our Nation's success in blending public and private efforts to achieve common goals.

Frequently, in this partnership, we start out with a program that is relatively dependent on Federal lending. Then in time, the program evolves into a form in which the private sector gradually takes up more of the burden.

Over the years, we have devised means to use the great resources of the private credit market to accomplish the same necessary and highly desirable social purposes which we originally set out to accomplish through direct Government lending. When private capital takes up part or all of the burden of a lending program, the resources of the public sector are freed to turn to other equally worthwhile purposes.

Broadly speaking, this process has been operating ever since we turned to guaranteed and insured loans in place of some of the direct lending programs. We might single out home ownership, which is not only almost a universal individual American aspiration but also one of our most widely accepted social goals. We could never have achieved our high degree of home ownership without using the resources of the private market under guaranty and insurance arrangements. This is true for at least three reasons:

First. The capital resources of the private market are far greater than those of the Government;

Second. We could not have increased

the Federal budget and, indeed, few if any of us would have wanted to increase the Federal budget to the degree required to provide the necessary funds through Government loans; and,

Third. While Government assistance was required to get the necessary programs underway, we needed the flexibility and ingenuity of the private market to carry them out successfully.

Federal credit programs, working through the private market, help to make the market stronger, more competitive, and better able to serve the economy's needs over the long term.

The substitution of private for public credit has received great impetus since the mid-1950's under a program of asset sales. This consists of selling loans—selling the loan paper—which is generated under various Federal lending programs.

The policy of asset sales, begun under the administration of President Eisenhower, has been endorsed by the distinguished private Commission on Money and Credit, of which Secretary of the Treasury Fowler was a member and which issued its authoritative report in 1961, and President Kennedy's Committee on Federal Credit Programs, of which former Secretary of the Treasury Dillon was Chairman.

Despite major efforts to draw on private credit, the volume of direct Federal loans outstanding has increased in recent years. The total outstanding was \$25.1 billion on June 30, 1961, and \$33.1 billion June 30, 1965.

These loans have direct consequences on the Federal budget—and, thus, on the policies followed by any administration. Money for lending programs must be budgeted, even though it will be repaid with little or no ultimate net costs to the Federal Treasury.

This means that it must be matched by tax revenue or by additional Treasury debt—or else that it must take the place of some other program, which then must be postponed or dropped. It should not require much soul searching to decide which is preferable—higher taxes, a larger deficit, postponement or elimination of some other Government activity, or greater involvement of private capital in the public lending programs.

Therefore, I strongly favor the enactment this year of the Participation Sales Act of 1966 which President Johnson has proposed, to broaden and make available on a Government-wide basis the authority for the sale of participations in pools of financial assets now owned by Federal credit agencies.

ARE THERE DEFICIENCIES IN CLOTHING AND MILITARY SUPPLIES IN VIETNAM?

(Mr. SAYLOR asked and was given permission to extend his remarks in the body of the RECORD and to include extraneous matter.)

Mr. SAYLOR. Mr. Speaker, for all the sudden prominence given the bomb shortage, it would seem excusable for the Pentagon to attempt to cover up any such matter of military significance. What is not clear is how the Nation's supply of ammunition was allowed to deteriorate while U.S. forces were being

plunged deeper and deeper into military involvement and conflict, but this and other related matters will hopefully be resolved as soon as possible if only to preclude recurrences of this serious nature.

If there is justification for withholding information on lack of ammunition necessary to lend full support to the military effort, similar restrictions would hardly hold true so far as any deficiencies in clothing or other material affecting the comfort of U.S. fighting personnel are concerned. On the contrary, shortages of such equipment should be publicized as widely as possible if only to give all America an opportunity to join in overcoming the deficiency.

Mr. Speaker, if full gear is not available to all servicemen stationed in combat areas, manufacturing capacity not now engaged in military production should be turned forthwith to getting out whatever is needed on the frontlines. Letters to parents in Pennsylvania's 22d District from men in Vietnam appeal for such items as combat boots and fatigue clothes. While these cases may be isolated and not indicative of the Defense Department's general supply situation, it is a national duty to assure full equipment to every serviceman. If the Pentagon lacks the necessary gear, our people should be so informed immediately so that all hands can turn to in every way we know how to meet the demand.

Another matter which I should like to call to the attention of my colleagues comes from a hospital corpsman who urged that his family provide him with a pistol as soon as possible. A Navy man assigned to the Marines, he makes frequent rescue missions into territory infested with Vietcong and is in need of a weapon small enough to be accessible on a moment's notice in the event of enemy attack. Thus far he has not been able to obtain a pistol of any sort from military officials, and there is suspicion that not enough are available for all the men who must expose themselves to jungle sorties. His parents purchased one for his use, however, the Post Office Department has refused to mail it. If there are not enough side arms for men who need them, then I see no reason why the postal rules cannot be relaxed to provide our military men in the front lines with adequate equipment.

For weeks it was an open secret that Defense Department agents were scouring Europe in search of bombs at whatever price they could get them, yet the shortage was continually denied here at home.

If indeed firearms essential to the protection of our fighting men are in short supply, I am confident that a call to manufacturers, dealers, and individuals would quickly close the gap—even without having to pay premium prices.

Everyone wants to help in every way possible to make certain that combat forces have the finest equipment possible, but maximum effort will not be attained unless we are given the full truth about the supply story.

WELCOMES INVESTIGATION OF LEFTIST STUDENT GROUP

(Mr. WAGGONER asked and was given permission to address the House for 1 minute and to revise and extend his remarks and to include extraneous matter.)

Mr. WAGGONER. Mr. Speaker, in October of last year, I introduced a House resolution calling for an investigation of the Students for a Democratic Society, a motley collection of unbathed leftwing students, heavily infiltrated and guided by Communist elements.

I was pleased to read in yesterday's New York Times that the national secretary of the society is squirming in protest over probes into their activities by the Federal Bureau of Investigation. I welcome the FBI into the picture for I have every confidence in that agency. I have equal confidence that they will find that this collection of human garbage calling themselves a "society" is made up of more than just SWINE, as Cartoonist Al Capp calls them, but of blood-red Communist provocateurs. It is one thing to be a SWINE, students wildly indignant about nearly everything; it is another to be a dupe of Communist agents and their tool in their efforts to undermine our opposition to the hammer and sickle in Vietnam and elsewhere.

Freedom of speech is not at stake here, despite what the ivory tower professors would have us believe. Again, freedom of speech and association are one thing; giving aid and comfort to the enemy in time of war is quite another. No one has that right, not while American servicemen are dying on battlefields to preserve that right of free speech and association.

This investigation is long overdue and I hope there will be no foot dragging until it is concluded.

The Times story makes interesting reading and I insert it here in the Record for all to see.

FBI SAID TO BE INVESTIGATING STUDENT GROUP OPPOSED TO WAR—ORGANIZATION SAYS CHAPTERS AT YALE AND WESLEYAN ARE UNDER SCRUTINY

(By Peter Kihss)

The national secretary of Students for a Democratic Society asserted yesterday that there "seems to be a national investigation" of his group by the Federal Bureau of Investigation.

Paul Booth, the 22-year-old secretary, said the 4-year-old organization had attacked the U.S. role in the Vietnam war and had sold 15,000 copies since September of a guide on how to claim conscientious objector status in the draft.

The only places Mr. Booth would identify as areas in which inquiries had been made were Wesleyan College in Middletown, Conn., and Yale University. He said the organization, with a "democratic radical program," had 175 to 200 chapters and 5,000 members, up from 3,000 last fall. Most of the members are college students, he said, but some are in high schools and young adult groups.

At Wesleyan, Stanley Idzerda, dean of the college, said an FBI agent had asked him about 2 weeks ago for names of all students in the college's Students for a Democratic Society chapter, and had been refused such data.

Mr. Idzerda said the college kept no such lists, and "we consider the student's activity his own affair."

DANGERS CITED

"It's unfortunate," he added, "that a climate of suspicion can be created by such activities that might lead some students to be more circumspect than the situation requires. Things like this can be a danger to a free and open community if men change their behavior because of it."

The college's semiweekly newspaper, the Wesleyan Argus, headlined the incident last Friday, and Mr. Idzerda said he then received another FBI visit Saturday. That time, he said, an agent contended there had been a "misunderstanding," and asserted there was no investigation of the society, but rather an inquiry into "possible infiltration of the SDS chapter by Communist influence."

A spokesman for the FBI office at New Haven said last night that the Bureau "makes inquiries every day on campuses throughout the country—we investigate 175 types of violations, security as well as criminal."

The spokesman said FBI files were "confidential," but, he added, "with respect to the statement that we questioned roommates of SDS members at Yale, this is not true."

METHODS ASSAILED

Eight members of the society's Wesleyan chapter had decried such alleged questioning at Yale in an article in the Argus. The article asserted that if the FBI wished information about member's beliefs, "it should have its agents directly question the individuals concerned."

Reached at the society's national office in Chicago, Mr. Booth, who has been the organization's full-time secretary since Nicholas deB. Katzenbach had told a Chicago news conference last October that the society was among groups figuring in a Justice Department inquiry into the antidraft movement.

Mr. Booth asserted, however, that his group's activity had been legal—"counseling and giving information on conscientious objection"—and there was apparently no investigation at that time.

He suggested that the FBI inquiries began last month partly because of some "totally false statements" about the society. Also, he said, individual chapters took part in demonstrations against the Vietnam war last month, including fasts at Wesleyan and other places.

Sarah Murphy, 20-year-old coordinator of the society's New York region, said last night that she knew of no member or school official involved with 28 to 30 chapters who had been directly contacted by the FBI about society activities.

CALIFORNIA STATE ASSEMBLY PRAISES REPRESENTATIVE MOSS

(Mr. SISK asked and was given permission to address the House for 1 minute, to revise and extend his remarks and include a resolution by the California State Legislature regarding Mr. JOHN E. Moss, of California.)

Mr. SISK. Mr. Speaker, the California State Assembly recently adopted a resolution, coauthored by 57 assemblymen, commending our colleague, JOHN MOSS, for his "continuous battle to keep open the channels of information for free access by the public and the press."

The resolution, which was approved unanimously, states that JOHN MOSS is "regarded nationwide by members of the press corps as the country's most active

[From Washington (D.C.) Star, Apr. 19, 1966]
CAMPAIGN DINNER SPEECH TONIGHT NOT A BIT
POLITICAL, MACY SAYS

(By Joseph Young)

A lot of eyebrows are being raised over the fact that Civil Service Commission Chairman John Macy is going to be the principal speaker tonight at the \$50 a plate campaign fund-raising dinner for Representative CLARENCE LONG, Democrat of Maryland.

It is the first time in memory that a member of the Civil Service Commission, which is supposed to stay completely out of political matters, has spoken at a political fund-raising affair. Maryland's two Democratic Senators—DANIEL BREWSTER and JOSEPH TYDINGS—will also attend, BREWSTER as the toastmaster and TYDINGS as official greeter.

Macy says his speech will be completely nonpolitical, that it will deal with the Government's manpower problems. He says that LONG is a longtime friend and was one of his teachers at Wesleyan University.

"There is nothing in my speech that can be interpreted in any way as a political endorsement," Macy said.

However, the speech recalls the uproar among Republicans in Congress last year when Macy acted as a congressional liaison man for President Johnson in trying to line up support for several key administration bills not in the least connected with civil service.

MORE ABOUT NATO

The SPEAKER. Under previous order of the House, the gentleman from New York [Mr. HALPERN] is recognized for 15 minutes.

Mr. HALPERN. Mr. Speaker, I would like to expand somewhat on my earlier remarks of April 6 relative to the evolving NATO dilemma.

While I am not privy to the inner deliberations of our Government, and so must depend upon traditional news sources and transcripts, these do not in truth give me much confidence that the United States is handling this problem maturely and realistically.

Certainly, along with most Americans, I profoundly regret the recent decisions of the French nation, our historic ally. In my view her withdrawal from the NATO command structure, as distinct from the alliance, is not in the best military and political interests of either France or the other allies.

Much of the soul searching which is now going on, however helpful in restoring some emotional balance, is irrelevant. To be sure, we are not blameless; American attitudes and policies have in several instances crystallized De Gaulle's suspicions of American motives, and thus have emboldened him. Perhaps this was inevitable, given the realization that our diplomatic instincts on the world scene, as a global power, are necessarily different from and maybe irreconcilable with those of General de Gaulle. The French decisions may have come regardless of any past American endeavors to attune our policy more closely with French interests.

However, what concerns me most is our official approach to this unalterable fact of French disengagement. Are the 14 members, spurred on by the United States, to adopt an attitude of complete intransigence? Are we to consume our mental faculties in a restless search for

wordy, meaningless communiques in order to cement a wall against French policy? Does our interest lie in an attempt, however unrewarding and illusory, to punish the mutineer? To isolate him through outraged opinion?

Such posturing, self-defeating and narrow in terms of long-range American interests, is being espoused by well-meaning but embittered people. Struggling daily with unseemly events they cannot control, aggravated by the widening gap between their dreams and unpleasant facts, many of our Atlanticists, in and out of the State Department, are propelling policy in a deliberate anti-French direction. High officials of our Government imply that the United States simply cannot accept the immoral, childish behavior of this ungrateful upstart, tearing agreements to pieces, placing demands, disrupting what are thought to be essential security arrangements.

The tenor of the American response thus far indicates that we may be prepared to totally ignore France in recasting the NATO structure. It would be a serious error, in reshaping the organization, if the 14 allies resurrected their military relationship in such a way that the French Government could not give some practical application to the mutual defense pledge.

Instead, there seems to be an inclination on the part of the United States to handle the French Government as if it were a renegade.

Recent pronouncements and actions by our Government give cause for the greatest anxiety. We have engaged in hasty attempts to mobilize European opinion against French policy, showing an utter lack of diplomatic tact and perspective. In addition to giving voice to hurt feelings, we have reiterated in dreary fashion our traditional belief in integration amounting to a sort of Monday morning rehash of spent ideas, unimpressive because it all comes too late.

The bankruptcy of this initial position may succeed eventually in dividing Europe against itself. Indeed, we have already contributed measurably toward undermining that crucial Franco-German rapprochement which is elementary to the future peace of Europe.

As far as France is concerned, we are assured that in wartime the French forces will necessarily be united with our own in any common conflict. The Foreign Minister has reaffirmed the NATO pledge, to the effect that if any member is subject to an unprovoked attack, then all the members are bound to go to its defense. He has denied, publicly, that France will in the future withdraw from the alliance. Furthermore, I believe the French Government is receptive to discussing with its allies the assumption of some prearrangements which are essential to give effect to the NATO commitment.

French policy distinguishes between the integrated organization and the alliance as such. And second, it rejects the possibility of a European ground war without recourse to nuclear weapons, which remain under national control. Hence the British, the Russians, and the

Americans have a unilateral option here, and it may come into play on French soil without French say-so.

If, as the French believe, any European conflict is to be resolved on the basis of nuclear weaponry, under other than French control, then I would admit that France lacks leverage over her own ultimate preservation. Objectively, this is not disadvantageous to France; our nuclear umbrella is credible, but this dependence, which causes the French Government discomfort, should be comprehensible if not wholly valid.

It is possible that President de Gaulle wishes to open the way toward a singular political rapprochement with Soviet Russia, thereby freeing the French Government to play in central Europe a predominant role in the settlement of all outstanding continental problems. These relate not only to Germany but to the involvement of the East European satellites. At the same time, this prescription would effectively remove French fears that America could itself deal bilaterally with Russia, without consultation with France on issues which affect her status and security in Europe.

While not discounting this eventuality, it is incumbent upon the United States to move tactfully and calmly at this point to reformulate this NATO organization as I suggested on April 6. It must be done in a fashion which suits our allies and accommodates the special relationship which France insists upon for herself. Differences have already emerged among the allies as to how this alliance is to be sustained. The United States could lose everything by enforcing the adoption of unpopular methods, or by simply redressing tired and doctrinaire policies.

I hope very much that we will have the good sense to cast hypocrisy and pretense aside, and mutually effect a system which is both practicable and takes account of the existing realities.

The SPEAKER. Under previous order of the House, the gentleman from Texas [Mr. POOL] is recognized for 60 minutes.

[Mr. POOL addressed the House. His remarks will appear hereafter in the Appendix.]

NOW WE ARE APOLOGIZING FOR FIGHTING IN VIETNAM

The SPEAKER. Under previous order of the House, the gentleman from Louisiana [Mr. WAGGONER] is recognized for 10 minutes.

Mr. WAGGONER. Mr. Speaker, in recent months, as the doves and the chickens have continued to flutter around Washington urging on the President a policy of retreat, negotiation, and appeasement in Vietnam, it seems to me that the administration has had to spend unnecessary time assuring the people of this country and the enemy as well, that we are in Vietnam to stay and to win.

If anyone within the administration has any wonder why the people are uncertain of our intentions, confused about our aims or unconvinced about our de-

termination, they need look no further than the front page of the Washington Post. In a story in yesterday's Post, the headline stated that "U.S. Denies Escalating Vietnam War." An unidentified Pentagon spokesman went to great pains to apologize for our strikes against two antiaircraft missile sites on the outskirts of Hanoi and to assure everyone, friend and enemy alike, that these strikes were defensive in nature only.

Instead of speaking positively and firmly about our efforts to win that dreadful war, we are now apologizing for our strikes.

What a ludicrous position this puts us in. On the one hand, we are trying to convince the Communists that we are not going to turn tail from our commitment and on the other we go out of the way to assure the doves and the appeasers that we are not really escalating or going all out.

As dreadful as it is, it is apparent to me that statements such as this are the source of the juice the administration has to stew in when they wonder why the people are not convinced that ours is a dedicated effort.

The story from the Post, as appalling as it is, needs to be read by every Member and I would like to insert it here in the RECORD.

UNITED STATES DENIES ESCALATING VIETNAM WAR

(By John G. Norris)

Pentagon spokesmen denied yesterday that American bomb strikes against two antiaircraft missile sites on the outskirts of Hanoi represented any planned escalation of the war, as claimed by North Vietnam.

The U.S. officials said the destruction of the missile bases 15 and 17 miles from Hanoi—closer to the North Vietnam capital than U.S. aircraft ever had struck previously—was defensive in nature.

The SAM surface-to-air missile sites were not on Sunday's target list, it was said, and their destruction did not represent any change in longstanding Washington restrictions on bombing in the north.

Rather, the Air Force F-100 and F-105 fighter bombers which blasted the missile bases were flying "CAP"—combat air patrol—over other U.S. planes attacking a targeted strategic bridge 33 miles south of Hanoi when they sighted the SAM sites. One fired at the U.S. planes and the American fighters then attacked them.

American pilots have standing orders to attack any North Vietnam missile site they sight, if it could interfere with their mission.

But while this particular attack does not represent any deliberate escalation of the war ordered by Washington, there is growing belief at the Pentagon that such orders may come soon.

The Joint Chiefs of Staff have recommended that American planes knock out North Vietnam's major petroleum reserves, located in the Hanoi-Haiphong area, as a more effective means of slowing down the movement of troops and supplies to the Vietcong from North Vietnam via the Ho Chi Minh trail.

The bridge 33 miles south of Hanoi hit by American planes Sunday was described here as "knocked out of service" but as none of the spans were actually severed it may be soon repaired.

Sunday's attack also put out of action a highway bridge at Haiduong, on the main road between Hanoi and Haiphong, about 21 miles from Hanoi. It was bombed last fall but repaired since then.

U.S. Navy carrier pilots also reported the probable destruction of another missile site 160 miles south of Hanoi. The attacks bring to seven the total of SAM installations reported destroyed since July 27. Eight or nine others have been damaged.

Aircraft from the aircraft carrier *Kitty Hawk* also struck Sunday at other points around Vinh, the major junction on the Communist supply line south. The Associated Press in Saigon said the Navy planes apparently hit liquid fuel used in the SAM missiles and most likely destroyed the site.

Russia is believed to have shipped 86 SAM installations—some mobile and some fixed—to North Vietnam. Some 160 missiles have been fired at U.S. planes, downing 10 planes.

American spokesmen in Saigon said no American plane was lost in the attacks near Hanoi. But five aircraft were knocked down by antiaircraft guns Saturday through Monday. Two airmen are listed as missing, the others were rescued.

There were few reports of ground action yesterday. However, a Vietcong suicide squad attacked U.S. Marine positions 375 miles north of Saigon Monday behind a barrage of Communist mortar shells. The marines lowered the barrels of their 155-millimeter, self-propelled guns and blasted the mortars. Then as the Vietcong attacked, the marines hit them with small arms fire. The action was 7 miles from Da Nang.

News services reported from Saigon that Vietcong terror continued against pro-government officials. A marine patrol found the mutilated body of a village chief of Kyxuan Island, near Chulai. It was reported that two young Vietnamese girls had lured the young man into a house where he was killed by Vietcong agents.

PARTICIPATION SALES ACT OF 1966

(Mr. MOORHEAD asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. MOORHEAD. Mr. Speaker, I support the Participation Sales Act of 1966 because I am sure it is sound legislation, it is in the interests of the people of the United States, and it will contribute to the more realistic sensible financing of Federal Government programs.

This legislation is nothing more than a proposal to authorize the pooling of certain Government loans for sale on the private market. This pooling technique has been proved highly effective in the last several years. It was pioneered by the Export-Import Bank and since then other agencies including the Veterans' Administration and the Federal National Mortgage Association have used this technique with excellent results.

All this legislation proposes to do is to extend this technique to other Federal credit programs, such as those of the Office of Education, the Farmers Home Administration, and the Small Business Administration.

Substituting private for public credit is not a new idea—in fact, it has been a cardinal principal of Federal financing for more than 10 years.

It carries the wholehearted endorsement of such groups as the Commission on Money and Credit—a blue-ribbon panel of economic and financial experts set up by the Committee on Economic Development to study our national needs; the Committee on Federal Credit Programs—set up by President Kennedy to examine principles of Federal financing

and many other outstanding groups and individuals on both sides of the political fence.

The present Secretary of the Treasury, Henry H. Fowler, was a member of the Commission on Money and Credit. He supports the policy of substituting private for public credit today as he did in 1961 when the Commission handed in its report. In that report the Commission said, and I quote:

Where it can be effective, a loan guarantee type of program should take preference over the direct lending type of program.

President Kennedy's Committee was headed by then Secretary of the Treasury Douglas Dillon and among the members were David Bell, Walter Heller, and William McChesney Martin, the Chairman of the Federal Reserve Board. That Committee had this to say about the substitution of private for public credit and I quote:

The Committee believes that Federal credit programs should, in the main and whenever consistent with essential program goals, encourage and supplement, rather than displace private credit.

Let me give you one final sample of the bipartisan support which this important policy has had in the past and which it deserves now. I quote from a minority report of the House Ways and Means Committee report on legislation to provide temporary increases in the public debt limit. This report, delivered in May 1963 had this to say on the subject:

The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets.

The point I am trying to make is simple. The point is that this is a sound measure for Government finance, that the policy under which it was framed has the clear and unequivocal support of both parties, of President Eisenhower, President Kennedy, President Johnson, and many, many others who have had an opportunity to deal at first hand with the realities of Federal finance.

The proposed legislation in no way dilutes the authority or control of the Congress over Federal spending or lending programs.

For all these reasons, I am proud to number myself among the many distinguished leaders who have supported this policy. On that basis, I now support this legislation.

A CITIZEN'S EFFORT CHANGES BOSTON RENEWAL PROJECT

(Mr. WIDNALL (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the Record and to include extraneous matter.)

Mr. WIDNALL. Mr. Speaker, on August 19, 1965, I related to this Chamber the efforts by the Boston Redevelopment Authority to oust low- and moderate-income families from their homes to make way for a high-rise, high-income apartment project which nobody except the developers apparently wanted. A month later, on September 21, I spoke to this body on the North Harvard Street project, as it is called, indicating that the

SPECIAL ORDERS GRANTED

By unanimous consent, permission to address the House, following the legislative program and any special orders heretofore entered, was granted to:

Mr. WAGGONER, for 10 minutes, today; and to revise and extend his remarks.

Mr. PUCINSKI, for 1 hour, on Thursday, April 21.

Mr. FRAZIER, for 1 hour, on Thursday, April 28.

Mr. QUIE (at the request of Mr. WYATT), for 10 minutes, today; to revise and extend his remarks and to include extraneous matter.

Mr. GOODELL (at the request of Mr. WYATT), for 10 minutes, today; to revise and extend his remarks and to include extraneous matter.

Mr. ASHBROOK (at the request of Mr. WYATT), for 15 minutes, today; to revise and extend his remarks and to include extraneous matter.

Mr. WOLFF (at the request of Mr. EDWARDS of Louisiana), for 15 minutes, today; to revise and extend his remarks and to include extraneous matter.

Mr. McDOWELL (at the request of Mr. EDWARDS of Louisiana), for 10 minutes, today; to revise and extend his remarks and to include extraneous matter.

Mr. FARBERSTEIN (at the request of Mr. EDWARDS of Louisiana), for 20 minutes, on April 21, 1966; to revise and extend his remarks and to include extraneous matter.

EXTENSION OF REMARKS

By unanimous consent, permission to extend remarks in the Appendix of the RECORD, or to revise and extend remarks was granted to:

Mr. PATMAN to extend his remarks and to include extraneous matter on the sales participation bill following the legislative business of today.

Mr. EDMONDSON and to include extraneous matter.

Mr. REUSS in six instances and to include extraneous matter.

Mr. HOLIFIELD and to include a speech by the Honorable Charles S. Murphy, Chairman, Civil Aeronautics Board.

Mr. O'NEILL of Massachusetts in three instances and to include extraneous matter.

Mr. FINO and to include extraneous matter.

Mr. COLLIER in five instances.

Mr. HORTON (at the request of Mr. WYATT) to follow Mr. REID of New York during debate on House Resolution 756.

Mr. RYAN to extend his remarks immediately prior to the passage of the resolution, House Resolution 777.

Mr. HOSMER in three instances and to include extraneous matter.

(The following Members (at the request of Mr. WYATT) and to include extraneous matter:)

Mr. QUILLEN.

Mr. BERRY.

Mr. HORTON.

Mr. ELLSWORTH.

Mr. BOB WILSON.

Mr. RUMSFELD.

Mr. BROCK.

Mr. LANGEN.

Mr. GOODELL.

Mr. YOUNGER.

Mr. HARVEY of Michigan.

Mr. SKUBITZ in two instances.

Mr. TALCOTT in three instances.

Mr. DOLE.

Mr. WHALLEY.

(The following Members (at the request of Mr. EDWARDS of Louisiana) and to include extraneous matter:)

Mr. DINGELL.

Mr. PICKLE.

Mr. TENZER in five instances.

Mr. RIVERS of South Carolina in two instances.

Mr. McFALL in two instances.

Mr. GONZALEZ in two instances.

Mr. VIVIAN.

Mr. MORGAN.

Mr. KORNEGAY in two instances.

Mr. GILLIGAN.

Mr. GRIDER.

Mr. LEGGETT in two instances.

Mr. VANIK.

Mr. ASHLEY.

Mr. CAREY in two instances.

Mr. GATHINGS.

Mr. CLARK.

Mr. ANNUNZIO.

Mr. REES.

ENROLLED BILLS SIGNED

Mr. BURLESON, from the Committee on House Administration, reported that that committee had examined and found truly enrolled a bill of the House of the following title, which was thereupon signed by the Speaker:

H.R. 1746. An act to define the term "child" for lump-sum payment purposes under the Civil Service Retirement Act.

ADJOURNMENT

Mr. EDWARDS of Louisiana. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 3 o'clock and 59 minutes p.m.) the House adjourned until tomorrow, Thursday, April 21, 1966, at 12 o'clock noon.

OATH OF OFFICE

The oath of office required by the sixth article of the Constitution of the United States, and as provided by section 2 of the act of May 13, 1884 (23 Stat. 22), to be administered to Members and Delegates of the House of Representatives, the text of which is carried in section 1757 of title XIX of the Revised Statutes of the United States and being as follows:

"I A B, do solemnly swear (or affirm) that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter. So help me God."

has been subscribed to in person and filed in duplicate with the Clerk of the House of Representatives by the following Member of the 89th Congress, pursuant to Public Law 412 of the 80th

Congress entitled "An act to amend section 30 of the Revised Statutes of the United States" (U.S.C., title 2, sec. 25), approved February 18, 1948; LERA (MRS. ALBERT) THOMAS, Eighth District, Texas.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

2321. A communication from the President of the United States, transmitting a draft of proposed legislation to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies and for other purposes (H. Doc. No. 426); to the Committee on Banking and Currency, and ordered to be printed.

2322. A letter from the Assistant Secretary of Defense (Installations and Logistics), transmitting a report on Department of Defense procurement from small and other business firms for July 1965 to February 1966, pursuant to the provisions of section 10(d) of the Small Business Act; to the Committee on Banking and Currency.

2323. A letter from the Assistant Secretary of the Interior, transmitting the annual report of the Governor of Guam, for the fiscal year ended June 30, 1965, pursuant to the provisions of section 6(b) of the Organic Act of Guam; to the Committee on Interior and Insular Affairs.

2324. A letter from the Director, Administrative Office of the U.S. Courts, transmitting the Annual Report of the Director of the Administrative Office of the United States Courts for the fiscal year 1965, pursuant to section 604(a)(4) of title 28, United States Code; to the Committee on the Judiciary.

2325. A letter from the Secretary of the Treasury, transmitting two drafts of proposed legislation, as follows: (1) to establish minimum standards for passenger vessel and to require disclosure of construction details on passenger vessels, and (2) to repeal the laws authorizing limitation of ship-owners' liability for personal injury and death, to require evidence of adequate financial responsibility to pay judgment for personal injury or death, or to repay fares in the event of nonperformance of voyages, and for other purposes; to the Committee on Merchant Marine and Fisheries.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. MILLER: Committee on Science and Astronautics. H.R. 14324. A bill to authorize appropriations to the National Aeronautics and Space Administration for research and development, construction of facilities, and administrative operations, and for other purposes, without amendment (Rept. No. 1441). Referred to the Committee of the Whole House on the State of the Union.

Mr. MADDEN: Committee on Rules. House Resolution 820. Resolution providing for the consideration of H.R. 12617, a bill to amend the act providing for the economic and social development in the Ryukyu Islands; without amendment (Rept. No. 1442). Referred to the House Calendar.

Mr. PEPPER: Committee on Rules. House Resolution 821. Resolution providing for the consideration of H.R. 13881. A bill to authorize the Secretary of Agriculture to regulate the transportation, sale, and handling

ding of dogs, cats, and other animals intended to be used for purposes of research or experimentation, and for other purposes; without amendment (Rept. No. 1443). Referred to the House Calendar.

Mr. ROLLING: Committee on Rules. House Resolution 822. Resolution providing for the consideration of H.R. 14088, a bill to amend chapter 55 of title 10, United States Code, to authorize an improved health benefits program for retired members and members of the uniformed services and their dependents, and for other purposes; without amendment (Rept. No. 1444). Referred to the House Calendar.

Mr. GARMATZ: Committee on Merchant Marine and Fisheries. Report on the *Yarmouth Castle* disaster; without amendment (Rept. No. 1445). Referred to the Committee of the Whole House on the State of the Union.

PUBLIC BILLS AND RESOLUTIONS

Under clause 4 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. BATTIN:

H.R. 14535. A bill to amend the Internal Revenue Code of 1954 to treat slintering or burning as a mining process in the case of shale, clay, and slate used or sold for use, as lightweight concrete aggregates; to the Committee on Ways and Means.

By Mr. CARTER:

H.R. 14536. A bill to extend and amend the Library Services and Construction Act; to the Committee on Education and Labor.

H.R. 14537. A bill to authorize a 3-year program of grants for construction of veterinary medical education facilities, and for other purposes; to the Committee on Interstate and Foreign Commerce.

By Mr. CELLER:

H.R. 14538. A bill to amend section 709 of title 18, United States Code, so as to protect the name of the Central Intelligence Agency from exploitation; to the Committee on the Judiciary.

By Mr. CURTIS:

H.R. 14539. A bill to establish a Joint Congressional Committee on American Manpower and National Security; to the Committee on Rules.

By Mr. FINO:

H.R. 14540. A bill to require the Secretary of the Treasury to study and report on an alternative coinage; to the Committee on Banking and Currency.

By Mr. JONES of Alabama:

H.R. 14541. A bill for the relief of the Colbert County Board of Education; to the Committee on the Judiciary.

By Mr. McDADE:

H.R. 14542. A bill to amend chapter 207, title 18, United States Code, to prescribe procedure for the return of persons who have fled, in violation of the conditions of bail given in any State or judicial district of the United States, to another State or judicial district, and for other purposes; to the Committee on the Judiciary.

By Mr. MORGAN:

H.R. 14543. A bill to provide compensation for damages to certain facilities rendered inoperative or otherwise adversely affected as a result of the modernization of the Monongahela River navigation project; to the Committee on Public Works.

By Mr. PATMAN:

H.R. 14544. A bill to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies and for other purposes; to the Committee on Banking and Currency.

By Mr. RODINO:

H.R. 14545. A bill to amend section 319 of the Immigration and Nationality Act to permit naturalization for certain employees

of U.S. nonprofit organizations engaged in disseminating information which significantly promotes U.S. interest, and for other purposes; to the Committee on the Judiciary.

By Mr. ST. ONGE:

H.R. 14546. A bill to authorize the Secretary of the Interior to study the feasibility and desirability of a Connecticut River National Recreation Area, in the States of Connecticut, Massachusetts, Vermont, and New Hampshire, and for other purposes; to the Committee on Interior and Insular Affairs.

By Mr. SCHWEIKER:

H.R. 14547. A bill to amend the Internal Revenue Code of 1954 to allow a taxpayer a deduction from gross income for expenses incurred for the higher education of himself, his spouse, and his dependents; to the Committee on Ways and Means.

By Mr. OLSEN of Montana:

H.R. 14548. A bill to extend the authority of the Postmaster General to enter into leases of real property for periods not exceeding 30 years, and for other purposes; to the Committee on Post Office and Civil Service.

By Mr. MORRISON:

H.R. 14549. A bill to extend the authority of the Postmaster General to enter into leases of real property for periods not exceeding 30 years, and for other purposes; to the Committee on Post Office and Civil Service.

By Mr. BATES:

H.R. 14550. A bill to amend the Internal Revenue Code of 1954 to encourage the construction of treatment works to control water pollution by permitting the deduction of expenditures for the construction, erection, installation, or acquisition of such treatment works; to the Committee on Ways and Means.

By Mr. CORMAN:

H.R. 14551. A bill to amend the Older Americans Act of 1965 in order to provide for a National Community Senior Service Corps; to the Committee on Education and Labor.

By Mr. FOGARTY:

H.R. 14552. A bill to amend section 312 of the Immigration and Nationality Act to exempt certain additional persons from the literacy requirements thereof in connection with their naturalization; to the Committee on the Judiciary.

By Mr. FULTON of Tennessee:

H.R. 14553. A bill to amend the River and Harbor Act of 1965 to prohibit certain fees being charged in connection with projects for navigation, flood control, and other purposes; to the Committee on Public Works.

By Mr. GILBERT:

H.R. 14554. A bill to establish a National Commission on Older Workers; to the Committee on Education and Labor.

H.R. 14555. A bill to amend the act entitled "An act to provide in the Department of Health, Education, and Welfare for a loan service of captioned films for the deaf," approved September 2, 1958, as amended, in order to further provide for a loan service of educational media for the deaf, and for other purposes; to the Committee on Education and Labor.

By Mr. HEBERT:

H.R. 14556. A bill to amend title 32, United States Code, to clarify the status of National Guard technicians, and for other purposes; to the Committee on Armed Services.

By Mr. McCARTHY:

H.R. 14557. A bill to protect children and others from accidental death or injury by amending the Federal Food, Drug, and Cosmetic Act with respect to aspirin intended for children, safety closures on drug containers, and cautionary labeling of containers of articles subject to the act where necessary to that end, and by amending the Federal Hazardous Substances Labeling Act to ban hazardous toys and articles intended for children, and other articles so hazardous as

to be dangerous in the household regardless of labeling, and to apply to unpackaged articles intended for household use, and for other purposes; to the Committee on Interstate and Foreign Commerce.

By Mr. RACE:

H.R. 14558. A bill to amend the act entitled "An act to promote the safety of employees and travelers upon railroads by limiting the hours of service of employees thereon," approved March 4, 1907; to the Committee on Interstate and Foreign Commerce.

By Mrs. REID of Illinois:

H.R. 14559. A bill proposing an amendment to the Constitution of the United States to permit voluntary participation in prayer in public schools; to the Committee on the Judiciary.

By Mr. ROGERS of Colorado:

H.R. 14560. A bill to amend the act of June 10, 1938, relating to the participation of the United States in the International Criminal Police Organization; to the Committee on the Judiciary.

By Mr. SAYLOR:

H.R. 14561. A bill to amend the Migratory Bird Hunting Stamp Act of March 16, 1934, to increase by \$2 the fee for such stamp; to the Committee on Merchant Marine and Fisheries.

By Mr. SCHEUER:

H.R. 14562. A bill to extend and amend the Library Services and Construction Act; to the Committee on Education and Labor.

By Mr. THOMPSON of New Jersey:

H.R. 14563. A bill to amend the Public Health Service Act to provide assistance to certain non-Federal institutions, agencies, and organizations for the establishment and operation of community programs for patients with kidney disease and for conduct of training related to such program, and other purposes; to the Committee on Interstate and Foreign Commerce.

By Mr. COLLIER:

H.J. Res. 1076. Joint resolution proposing an amendment to the Constitution of the United States to permit voluntary participation in prayer in public schools; to the Committee on the Judiciary.

By Mr. GARMATZ:

H.J. Res. 1077. Joint resolution proposing an amendment to the Constitution of the United States to permit voluntary participation in prayer in public schools; to the Committee on the Judiciary.

By Mr. McCARTHY:

H.J. Res. 1078. Joint resolution to create a delegation to a convention of North Atlantic nations; to the Committee on Foreign Affairs.

By Mr. McDADE:

H.J. Res. 1079. Joint resolution to create a delegation to a convention of North Atlantic nations; to the Committee on Foreign Affairs.

By Mr. BOB WILSON:

H.J. Res. 1080. Joint resolution to establish a National Cemeteries Site Selection Advisory Board to govern further development of the national cemetery system; to the Committee on Interior and Insular Affairs.

By Mr. PATMAN:

H. Con. Res. 628. Concurrent resolution authorizing the printing for the use of the Joint Economic Committee of additional copies of its hearings entitled "20th Anniversary of the Employment Act of 1946: An Economic Symposium"; to the Committee on House Administration.

MEMORIALS

Under clause 4 of rule XXII,

461. The SPEAKER presented a memorial of the House of Representatives of the Commonwealth of Massachusetts, relative to restoring in the Federal budget the cut in the school lunch and milk programs, which was referred to the Committee on Appropriations.

OUR BANTAM SUPERSONIC JET—NEGLECTED BY THE AIR FORCE FOR YEARS, THE RUGGED FREEDOM FIGHTER HAS FINALLY GOTTEN ITS CHANCE AT COMBAT

(By Herbert O. Johansen)

Our newest tactical guerrilla warfare weapon is a pint-size, supersonic, twin-jet fighter-bomber that was born more than 10 years ago—and prophetically named the Freedom Fighter.

It's the Northrop F-5—a tough little scrapper with extraordinary combat performance: high rate of climb, quick acceleration to supersonic speed, extreme maneuverability at altitudes to 40,000 feet, and bantam weight. The basic reason for this prowess is its twin powerplants—GE J-85 turbojets. Each produces 4,080 pounds of thrust, yet weighs only 585 pounds—a prodigious thrust-to-weight ratio of 7 to 1.

Low in weight, high in performance, the Freedom Fighter is also low in cost. The F-105 Thunderchief, for instance, costs \$2,067,000. The F-5 is off the shelf at \$669,175. On electronic equipment, the difference is even more amazing. On the F-105, it costs \$233,143; on the Freedom Fighter, only \$12,000.

The F-5 was designed as a supersonic tactical aircraft to replace obsolescent F-84's and F-86's in the aerial arsenals of selected allied countries under our military assistance program; nine nations are getting them.

In the United States, however, the F-5 was considered an underdog. We already had in Vietnam such supersophisticated fighter-bombers as the multimillion-dollar F-105 Thunderchief, the F-104 Starfighter, the F-100 Super Sabrejet, the F-4 Phantom.

THE UNDERDOG HAS ITS DAY

While scorning the F-5 for combat, the Air Force did order tandem versions as supersonic trainers. More than 800 of these T-38 Talons have trained thousands of pilots to fly in a combat-plane environment. This kept the F-5 design alive. More important, it ironed out the mechanical, electronic, and maintenance bugs that plague most new planes when they first go into combat.

Then, about a year ago, the Air Force decided to try out the F-5 in Vietnam and organized a squadron of 12 planes to train for combat at Williams Air Force Base, Ariz.

Proud of the small size of their planes, they named their squadron the Skoshi Tigers—Skoshi is the phonetic spelling of the Japanese word "sukoshi," meaning "little."

In October of last year, the Skoshi squadron took off for combat. Although they have a range of only about 1,500 miles, the pilots flew their F-5's to their destination target, 8,500 miles away, stopping at Hawaii and Guam. They were accompanied by KC-135 jet tankers—and en route each plane took more than a dozen gulps of fuel from the mother planes.

Within 6 hours after touchdown at Bien Hoa Air Base, near Saigon, on October 23, two F-5's were off on a combat mission. They bombed and strafed suspected battalion-size Vietcong jungle concentrations. Since then, they have run up an impressive record of hundreds of "missions accomplished."

"When we parked our F-5's alongside some of their bigger brothers at Bien Hoa," said one Skoshi pilot, "they looked like toys. We ground maneuvered like Volkswagens."

The F-5's built-in ease of maintenance already has proved a boon in its trial operations. "Aside from its versatility," says Col. Edward Johnson, head of a team of experts that is evaluating the trim little fighter's combat performance, "what the airmen like most about the plane is its simplicity."

"That's the beauty of it. The F-5 is so simply constructed that it takes 50 percent less maintenance than some of the big jet fighter-bombers. Two men can lift off the

tall. Three men have removed an engine in 20 minutes."

KEEPING REPAIRS AT GROUND LEVEL

This ease of maintenance is due largely to Northrop design foresight. Parts needing frequent replacement or repair were put low to the ground and made readily available through access doors.

One great advantage of the F-5 has as an antiguerrilla air weapon is that it can really give ground support to troops by following them into combat. It needs no prepared runways—it can take off from sod fields in forward areas.

For their combat missions in Vietnam, the F-5's were camouflaged—painted a mottled green and brown on the top and sides, a pale blue on the bottom. This is to blend in with the jungle when seen from above by enemy aircraft, with the sky when flying low and vulnerable to ground fire.

In aerial combat, the 1,000-mile-an-hour F-5 is able to outfight aircraft of greater speed. That is what its pilots proudly say they learned during their training at Williams Air Force Base, prior to being shipped to Vietnam to prove it.

LOADED FOR BEAR

The fighting package of the F-5 is also outstanding for a midget that weighs only 12,000 pounds in its "bare feet." In addition to two 20 millimeter rapid-firing cannons in the nose (and their ammo), the Freedom Fighter can carry 6,200 pounds of armament externally, slung under its belly and wings. In various combinations it can mount: supersonic aid-to-air missiles, air-to-ground rockets, anti-radar missiles, general-purpose bombs, and phosphorous and napalm incendiaries.

For extra range, fuel-tip tanks can be carried, although this naturally cuts down the armament load. For aerial reconnaissance, the F-5 can be fitted with a camera nose—at the factory or in combat areas with a kit that replaces the nose cone.

Still another advantage of the tactical Freedom Fighter is its exceptional single-engine performance. If an F-5 pilot runs low on fuel while he is still needed to hang around in support of ground troops, he simply shuts off one engine and extends his loiter time.

F-5 men readily admit that it is unsophisticated. It does not have the capability of blind radar bombing. It does not have the all-weather capability provided by the radar equipment of its big brothers. It has a simple gunsight instead of a complex electronic one.

Fully armed and fueled, takeoff weight of the F-5 is about 20,000 pounds; of the F-105, more than 50,000 pounds. This, in guerrilla warfare, means the difference between long, paved runways and sod-field operation in forward areas.

THE CHALLENGE

The question is, can the F-5 do close-in support and air-fighting jobs as well, or better, in jungle warfare than its bigger, costlier, more complex brothers? The answer will come when the F-5's have completed their combat trial in Vietnam, and the evaluation team of experts reports to the Department of Defense.

THE PARTICIPATION SALES ACT OF 1966

Mr. BENNETT. Mr. President, we have just received along with a message from the President the Participation Sales Act of 1966. This proposed legislation would authorize the head of any executive department, agency, or instrumentality of the United States to set aside a part of all of any financial assets

held by him, subject them to a trust or trusts, and to guarantee to the trustee timely payment of principal and interest on the assets so set aside.

Under the trust instrument, FNMA would act as trustee and the title to the obligations would be deemed to have passed to FNMA in trust. FNMA would have authority to issue participation certificates based on these obligations for sale on the private money market.

Subsection (b) of section 2 of the bill gives a blank check to the Treasury to pick up the deficiencies that may occur in the payment on the obligations. Indefinite appropriations would be established on the books of the Treasury in the amounts necessary to enable the executive department, agency, or instrumentality of the United States to effect timely payment to the FNMA of any insufficiencies on account of outstanding participations.

Just over a month ago, the subject of discussion in this Chamber was a bill to permit the sale of Small Business Administration loan participation certificates through the facilities of the Federal National Mortgage Association. I made the point at that time, that it was not just a one-shot affair, but that we should consider the principle of the proposed legislation and the precedent that it would set. I suggested that we consider the long run instead of an isolated single agency.

At the time I said that, it was no secret that the administration was drafting legislation that would extend the same principle to several other agencies. The President in his budget message indicated that an attempt would be made to secure legislation that would permit the sale of a total of \$3.3 billion of direct Government loans and participations in these loans.

The budget statement requested legislation to expand this authority to the Department of Agriculture, Farmers Home Administration, which it is estimated would market \$600 million worth of participation certificates in the next fiscal year; the Department of Health, Education, and Welfare, Office of Education, which would sell \$100 million worth; the Federal National Mortgage Association, which it is estimated could sell an additional \$400 million; college housing loans which would add \$80 million, and SBA loans estimated at \$850 million in participation certificates in fiscal 1967.

These listed programs added a total of \$2.8 billion to the sales of Federal loans and participations in the next fiscal year.

It should be made clear just what the purpose of such sales is. It was claimed when the SBA bill was before us that it would permit a significant increase in the ability of the SBA to make loans. Perhaps this screen caused many to vote for the procedure. The fact is that it did not increase the authorized program of the SBA by a single dollar. What it did do was to make it possible for the SBA to sell off, in effect, some of its obligations and, thus, increase funds in its revolving fund. There is a legislative limit on the amounts that can be outstanding

in SBA programs and the bill which we passed did not have any effect on that limit.

It did make it possible for the SBA to make loans up to that limit without seeking appropriations for such loans above the amount already appropriated for. In other words, the appropriations process was bypassed.

It did make it possible for the money received from the sale of participations that could not be used for increasing SBA loans, to be returned to the Treasury. And, this is the real purpose of these legislative proposals.

What we are really being asked to do is to circumvent the ordinary budgetary channels in Federal spending. The procedure is one which makes it possible to conceal the cost of operating the Federal Government by providing funds outside of the appropriations process.

It can appropriately be questioned as to whether this new fiscal scheme perverts the basic elements of honesty in the cost of Government and imposes on the financial structures of the country a concealed burden of public debt.

We hear much about the tendency for the power to gravitate away from congressional bodies or other bodies elected by the people and toward a central bureaucracy. This legislation is a large step in that direction.

The agencies, departments, or Federal instrumentalities are not even listed. This proposal includes them all. I ask unanimous consent that a list of such agencies provided for the Senate Banking and Currency Committee be printed in the RECORD at this point in my remarks.

There being no objection, the list was ordered to be printed in the RECORD, as follows:

Collateral held by banks for cooperatives.
Collateral held by Bureau of Reclamation on project and system loans.

Collateral held by Farm Credit Administration functions.

Collateral held by Farmers Home Administration.

Collateral held by Federal Crop Insurance Corporation (policies).

Collateral held by Federal intermediate credit banks (farm loans).

Collateral held by Federal land banks.

Collateral held by Rural Electrification Administration.

Collateral held by Federal Credit Unions.

Collateral held by Federal Deposit Insurance Corporation.

Collateral held by Federal Savings and Loan Insurance Corporation.

Collateral held by U.S. Post Office Department.

Collateral held by ARA.

Collateral held by Civil Aeronautics Board.

Collateral held by Defense Department (loan guarantee program).

Collateral held by District of Columbia Fiscal Service (public works loans).

Collateral held by General Services Administration (surplus property sales).

Collateral held by Interstate Commerce Commission (railroad loan guarantee).

Collateral held by Maritime Administration (ship loan and mortgage insurance).

Collateral held by Office of Defense Lending (production loans).

Collateral held by Under Secretary for Transportation (aircraft loans).

Collateral held by Small Business Administration.

Collateral held by Office of Education (Cuban loans) (loans to institutions) (non-profit school loans) (student loans).

Collateral held by Bureau of Commercial Fisheries (upgrade loans) (shipbuilding).

Collateral held by Public Health Service (Hill-Burton loans).

Collateral held by Housing—community facilities (college housing) (elderly) (public works) (public facility).

Collateral held by Federal Home Loan Bank System.

Collateral held by Federal Housing Administration (insurance program).

Collateral held by HHFA (voluntary home mortgage credit) (mass transportation) (low-income demonstrations).

Collateral held by Public Housing Administration (public housing).

Collateral held by Urban Renewal Administration (urban renewal).

Collateral held by Bureau of Indian Affairs.

Collateral held by Agency for International Development (dollar development) (local currency loans).

Collateral held by Export-Import Bank.

Collateral held by Inter-American Development Bank.

Collateral held by International Bank for Reconstruction and Development.

Collateral held by international development program.

Collateral held by International Finance Corporation.

Collateral held by International Monetary Fund.

Collateral held by International Affairs.

Collateral held by Office of Territories (Micronesian trade loans).

Collateral held by Pan American Sanitary Bureau (advance purchases).

Collateral held by Office of Minerals Exploration.

Collateral held by Veterans' Administration (home, farm, business).

Mr. BENNETT. Mr. President, it has been argued that this type of financing is replacing Federal funds with private funds. Quoting from the Budget Bureau statement accompanying the bill, we find:

The basic purpose of the proposed legislation, as indicated, is to encourage the substitution of private for public credit in various major Federal credit programs.

It continues:

Given the desirability of drawing in greater private participation in the Federal credit programs, the sale of interests in pools of assets is the most satisfactory and economical means that has been devised to meet this end. The program of asset sales also facilitates the efficient use of budgetary funds.

I suppose that if one uses the assumptions that he desires, one could come to most any conclusion to support his own ends. I do not agree that this measure will in any way increase the amount of money coming from private sources.

It is a fact that any money now used in these programs totaling more than \$33 billion originally came from the private money market either in the form of taxes or in the form of debt securities purchased from the Federal Government by private individuals, business corporations, and financial institutions. These are the same individuals, businesses, and financial institutions which will purchase the participations which the Federal Government now desires to sell in order to avoid showing the \$33 billion as part of the Federal debt.

In addition to the other reasons for op-

posing the sale of participations, it is a much more expensive method of financing. The Treasury can borrow funds at a rate lower than these participation certificates demand on the market.

It has been estimated that the additional cost of the proposed sales of participations for the fiscal years 1966 and 1967 would amount to more than \$380 million. This is the premium that the administration is willing to pay to avoid showing \$8 billion as an increase in Federal expenditures or as part of the Federal debt.

According to the Budget Bureau, there are over \$33 billion worth of loans outstanding, and this bill would allow not only the sale of participations in the programs listed in the message presented in January which totaled \$3.3 billion in 1966 and \$4.7 billion in 1967, but it would open the way for the sale of the whole \$33 billion of Federal assets. Based on the SBA figures submitted, sale of participations on this whole amount could result in an additional cost of between \$1.5 and \$2 billion to the Federal Government.

Quoting from the Treasury Department statement accompanying the bill:

Participation certificates carry somewhat higher rates than Treasury obligations of comparable maturity. But this is a small price for the advantage of attracting private investors to Federal credit programs, and avoiding the large budgetary drain that would result if means were not developed to move Federal financial assets back into the private sector.

What is wrong with showing Federal programs and expenditures as a budgetary drain? This is exactly what they should be shown as.

This is the whole nub of this proposal. The administration desires to avoid the showing of these Federal loan programs as part of the Federal budget. It is a budgetary measure to avoid indicating to the general public the increase in public programs and increase in Federal debt.

It seems to me that it is much to be preferred that the Federal Government take the responsibility for its actions. If the lending programs are supported by the citizenry of this Nation, they should be willing to fund them through the ordinary Treasury channels of either tax increases or Federal borrowing. If it is necessary to use subterfuge to increase Federal spending, I think it is about time that Members of Congress take it upon themselves to be sure that their constituency at least know what the total cost of Federal programs is.

HIDE EXPORT CONTROLS UNFAIR TO THE AMERICAN FARMER

Mr. HRUSKA. Mr. President, early last month, the Secretary of Commerce invoked the drastic provisions of the Export Control Act for the purpose of imposing strict limitations on the export of hides to foreign markets.

The action was taken hurriedly, without an opportunity for the full consultation that might ordinarily be expected before such an important action. No public hearings were held prior to the issuance of those orders. Now, to his

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
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OFFICE OF BUDGET AND FINANCE
FOR INFORMATION ONLY;
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Issued April 22, 1966
For actions of April 21, 1966
89th-2nd; No. 67

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HIGHLIGHTS: Several members discussed farm prices. Senate made community development districts bill its unfinished business. House committee voted to report sales participation bill (p. D336); Reps. Stephens and Albert commended it. Rep. Albert announced House will consider agricultural appropriation bill Tues. Rep. Nelson criticized alleged cutback in Defense food purchases. Rep. Gathings stated foreign countries producing cotton should concentrate on food production.

SENATE

- FARM PRICES. Sen. Talmadge questioned whether current farm prices are inflationary. pp. 8304-5
 Sen. Mansfield inserted Secretary Freeman's recent statement on farm prices. pp. 8316-7
 Sen. Mundt criticized the Administration and Secretary Freeman for concern over higher farm prices from the standpoint of inflation, and Sen. Bayh discussed accomplishments of the Administration and defended its record. pp. 8317-25

Sen. Pearson said beef is a bargain and inserted an article, "Ridiculous Concepts Shackle Meat Industry." p. 8309

2. LOANS. Received from the President a proposed bill to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies; to Banking and Currency Committee. p. 8260
3. SCHOOL MILK. Sen. Proxmire said the school milk cutback could damage the anti-poverty programs. p. 8293
4. CATTLE-HIDE EXPORTS. Sen. Carlson inserted an article critical of control over cattle-hide exports. p. 8293
5. POVERTY. Sen. Nelson inserted an article, "The Plight of the Rural Poor." pp. 8295-7
Sen. Muskie commended and inserted former N. C. Gov. Sanford's statement, "Poverty's Challenge to States." pp. 8305-8
6. CONSUMERS. Sen. Williams, N. J., announced the Consumer Assembly of 1966 and asked additional protection of consumers. pp. 8308-9
7. COMMUNITY DEVELOPMENT DISTRICTS Bill, S. 2934, was printed in the Record and made the unfinished business, to be debated Mon. pp. 8259-60, 8310
8. ADJOURNED until Mon., Apr. 25. p. 8325

HOUSE

9. LOANS. The Banking and Currency Committee voted to report (but did not actually report) H. R. 14544, amended, the proposed Sales Participation Act of 1966, and S. 2499, amended, to amend the Small Business Act to authorize issuance and sale of participation interests based on certain loan pools held by the Small Business Administration. p. D336
Reps. Stephens and Albert commended the sales participation bill. pp. 8328-9, 8367-9
10. FOREIGN AID. Rep. Nelsen inserted his letter to the President urging a reversal of the Government's decision "to send money through a United Nations agency to train Cuban Communists in military-related subjects" in view of the proposed cutback in the school milk, school lunch, and agricultural research and conservation programs. pp. 8336-8
11. FARM PRICES. Rep. Findley criticized Sec'y Freeman for expressing "pleasure" over a "drop in farm market prices," and stated that this Department and the administration are trying "to pin the blame for inflation on agriculture." pp. 8332-33
Rep. Nelsen accused this Department of "activities designed to depress the price of farm commodities" and inserted an article explaining the "role played by the Department of Agriculture" in the recent order of the Defense Dept. to reduce the purchases of prime pork products for the armed services. pp. 8333-9
12. LIBRARIES. Rep. Dorn inserted an article announcing National Library Week, Apr. 17-23, and praising all of our fine libraries. p. 8371

The amendments were agreed to.

The bill was ordered to be engrossed for a third reading, was read the third time, and passed.

Mr. MANSFIELD. Mr. President, I ask unanimous consent to have printed in the RECORD an excerpt from the report explaining the purposes of the bill.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

PURPOSE OF THE BILL

The purpose of the bill, as amended, is to facilitate the entry into the United States in an immediate relative status of an orphan to be adopted by citizens of the United States, notwithstanding the fact that the prospective adoptive parents have previously had the maximum number of petitions approved. The bill has been amended to conform the language to the new provisions of the Immigration and Nationality Act.

EUGENE SIDNEY MARKOVITZ

The Senate proceeded to consider the bill (S. 2163) for the relief of Seaman Eugene Sidney Markovitz, U.S. Navy, which had been reported from the Committee on the Judiciary with an amendment on page 1, line 6, after the word "of", to strike out "\$4,452.13" and insert "\$3,067.63"; so as to make the bill read:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is authorized and directed to pay, out of any money in the Treasury not otherwise appropriated, to Seaman Eugene Sidney Markovitz the sum of \$3,067.63 representing compensation for the loss of his household goods and personal effects which were destroyed by fire while stored at the Guardian Van and Storage Company, San Diego, California, following the expiration of his authorized period of temporary storage at Government expense, but during a period the said Seaman Eugene Sidney Markovitz was entitled to additional storage at Government expense, although he was unable to make arrangements for such storage because of frequent movements in connection with his military service: *Provided,* That no part of the amount appropriated in this Act in excess of 10 per centum thereof shall be paid or delivered to or received by any agent or attorney on account of services rendered in connection with this claim, and the same shall be unlawful, any contract to the contrary notwithstanding. Any person violating the provisions of this Act shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000.

The amendment was agreed to.

The bill was ordered to be engrossed for a third reading, was read the third time, and passed.

Mr. MANSFIELD. Mr. President, I ask unanimous consent to have printed in the RECORD an excerpt from the report (No. 1132), explaining the purposes of the bill.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

PURPOSE

The purpose of the bill, as amended, is to direct and authorize the Secretary of the Treasury to pay, out of any money in the Treasury not otherwise appropriated, to Seaman Eugene Sidney Markovitz, U.S. Navy, the sum of \$3,067.63, representing compensation for the loss of his household goods

and personal effects which were destroyed by fire while stored at the Guardian Van & Storage Co., San Diego, Calif., following the expiration of his authorized period of temporary storage at Government expense.

Mr. MANSFIELD. Mr. President, that concludes the call of the calendar.

COMMUNITY DEVELOPMENT DISTRICT ACT OF 1966

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of S. 2934, and that it be laid before the Senate and made the pending business.

The ACTING PRESIDENT pro tempore. The bill will be stated by title for the information of the Senate.

The LEGISLATIVE CLERK. A bill (S. 2934) to provide needed additional means for the residents of rural America to achieve equality of opportunity by authorizing the making of grants for comprehensive planning for public services and development in community development districts designated by the Secretary of Agriculture.

The ACTING PRESIDENT pro tempore. Is there objection to the present consideration of the bill?

There being no objection, the Senate proceeded to consider the bill, which had been reported from the Committees on Agriculture and Forestry with an amendment to strike out all after the enacting clause and insert:

That this Act may be cited as the "Community Development District Act of 1966".

SEC. 2. It is the purpose of this Act (1) to provide the means for more equitable participation by rural residents in coordinated planning activities and decisions; (2) to increase efficiency in the use of resources; (3) to provide full representation of smaller governmental units in the planning activities and decisions which affect their residents, so that existing and future programs can be made more effective in providing in rural America equality of opportunity; (4) to improve the relationships between and the welfare of both urban and rural people; and (5) to facilitate the cooperation among all Federal, State, and local agencies in establishing community development districts to better coordinate the planning of programs to improve rural life.

SEC. 3. The Secretary of Agriculture, after consulting with the Secretary of Housing and Urban Development, may approve as a community development district (hereafter called "district") for the purpose of this Act any area that has been so designated by the State agency specified by the Governor or legislature of the State, or in the absence of such designation any other area: *Provided,* That no district shall be approved under this section unless (1) local units of government participating in such district have requested the Secretary of Agriculture to approve the area as a community development district; (2) the State agency having supervisory responsibility under State law has received forty-five days notice of the intention to approve such district, and has not disapproved such approval; (3) except in the case of a district designated by the State agency specified by the Governor or legislature of the State or in the case of a district in existence on the date of enactment of this Act, the district does not include any area of any county unless the entire area of the county is included. Such district shall encompass as nearly as feasible the area which includes at least one service center and the surrounding territory within convenient commuting

distance thereof, and any additional territory from which the residents beyond convenient commuting distance depend on such center as their central source of goods and services. "Convenient commuting distance" means the distance and direction within which residents carry on their day-to-day commercial, vocational, public service, social, and cultural pursuits.

SEC. 4. (a) In order to qualify for approval by the Secretary of Agriculture, a community development district board (hereafter called "board") shall have been organized in the district and empowered to establish and direct a community development district planning agency (hereafter called "planning agency"). Members of the board shall be elected by the governing bodies of the participating governments, and shall be responsible to the respective governing bodies by which they are elected. Representation on the board shall be so established that all citizens residing within the district can be represented on the board through action of a government in which jurisdiction they reside.

(b) "Participating" governments as used in this Act means those counties and municipalities which have authorized by official action of their governing bodies representation on the board and participation in the functions of the board. If such participating governments see fit to include in the charter or bylaws of the district provision for participation by additional public bodies, such additional public bodies shall be participating governments for all purposes of this Act after their governing bodies have by official action authorized representation on the board and participation in the function of the board.

SEC. 5. Section 701 of the Housing Act of 1954, as amended, is amended by adding thereto the following:

"(h) Notwithstanding any other provisions of this section, grants may be made by the Secretary of Housing and Urban Development with the concurrence of the State within which the district is located to the planning agency of any community development district when such grants are approved by the Secretary of Agriculture under the Community Development District Act of 1966 for comprehensive planning as defined in this section, but including planning for all needs of the district in accordance with said Community Development District Act. Such grants shall be in the amounts certified by the Secretary of Agriculture, as follows:

"(1) not to exceed 75 per centum of the cost of salaries and expenses of the professional staff required for community development district program development planning, and for other planning of public services and other functions of the participating governments for which Federal planning grants are not otherwise available; but in no event shall any grant under this paragraph be based on costs serving as a basis for any other Federal planning grant.

"(2) planning incentive grants in an amount not to exceed 10 per centum of the amount of other Federal grants for planning purposes extended within the district.

"Grants provided under this subsection to the planning agency may be paid in whole or in part to participating governments or to States for the use of the State or, the planning agency or both where this will facilitate the planning for the district.

"For purposes of this subsection comprehensive planning may also include the undertaking of coordinated planning for public services and for all other local governmental functions."

SEC. 6. The Administrator of any Federal assistance program having a requirement for planning as a condition of loan or grant assistance shall, before approval of such assistance, give consideration to the plans for the applicable district.

Sec. 7. The Secretary of Agriculture shall require, as a condition of extending planning assistance, that the Board agree to give consideration to all other plans prepared under other federally assisted programs affecting the district.

Sec. 8. Any agencies of the United States authorized to make grants, loans, or other assistance shall accord due and appropriate consideration to requests for assistance to carry out plans of districts. Upon request of a board, the Secretary of Agriculture may provide technical advice to applicants for such assistance in the development and implementation of plans provided for in this Act.

Sec. 9. (a) The Secretary of Agriculture is authorized to delegate to the heads of other departments and agencies of the Federal Government such of his functions, powers, and duties under this Act as he may deem appropriate, and to authorize the redelegation of such functions, powers, and duties by the heads of such departments and agencies.

(b) Departments and agencies of the Federal Government shall exercise their powers, duties, and functions in such manner as will, to the maximum extent permitted by other applicable laws, assist in carrying out the objectives of this Act.

Sec. 10. The planning staff employed by the district shall prepare or revise annually a detailed study for the district describing the Federal programs of aid or assistance in economic or social development that the district is eligible for, together with the criteria, standards, or other conditions that the district must meet to avail itself of such Federal programs.

Sec. 11. There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

Mr. MANSFIELD. Mr. President, for the information of the Senate, there will be no action taken on the bill today, but it will be the pending business when the Senate reconvenes on Monday, April 25, 1966.

ORDER FOR ADJOURNMENT UNTIL MONDAY, APRIL 25, 1966

Mr. MANSFIELD. Mr. President, I ask unanimous consent that when the Senate completes its business today, it stand in adjournment until 12 o'clock noon on Monday, April 25, 1966.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

AUTHORIZATION FOR SECRETARY OF THE SENATE TO RECEIVE MESSAGES, FOR THE VICE PRESIDENT OR PRESIDENT PRO TEMPORE TO SIGN BILLS, AND FOR COMMITTEES TO FILE REPORTS

Mr. MANSFIELD. Mr. President, I ask unanimous consent that during the adjournment of the Senate, from today until noon on Monday next, that the Secretary of the Senate be authorized to receive messages from the President of the United States and from the House of Representatives, and that the Vice President or the President pro tempore be authorized to sign duly enrolled bills, and that committees of the Senate be authorized to file reports.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

LIMITATION ON STATEMENTS DURING THE TRANSACTION OF ROUTINE MORNING BUSINESS

On request of Mr. MANSFIELD, and by unanimous consent, statements during the transaction of routine morning business were ordered limited to 3 minutes.

EXECUTIVE COMMUNICATIONS, ETC.

The ACTING PRESIDENT pro tempore laid before the Senate the following communication and letters, which were referred as indicated:

PARTICIPATION SALES ACT OF 1966

A communication from the President of the United States, transmitting a draft of proposed legislation to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes (with accompanying papers); to the Committee on Banking and Currency.

REPORT ON OFFICERS ASSIGNED OR DETAILED TO PERMANENT DUTY AT THE SEAT OF GOVERNMENT

A letter from the Secretary of the Air Force, reporting, pursuant to law, that as of March 31, 1966, there was an aggregate of 2,231 officers assigned or detailed to permanent duty in the executive part of the Department of the Air Force at the seat of Government; to the Committee on Armed Services.

REPORT ON DEFENSE PROCUREMENT FROM SMALL AND OTHER BUSINESS FIRMS

A letter from the Assistant Secretary of Defense (Installations and Logistics), transmitting, pursuant to law, a report on defense procurement from small and other business firms, for the period July 1965-February 1966 (with an accompanying report); to the Committee on Banking and Currency.

DRAFTS OF PROPOSED LEGISLATION FROM SECRETARY OF THE TREASURY

A letter from the Secretary of the Treasury, transmitting two drafts of proposed legislation, as follows:

A bill to establish minimum standards for passenger vessels and to require disclosure of construction details on passenger vessels; and

A bill to repeal the laws authorizing limitation of shipowners' liability for personal injury or death, to require evidence of adequate financial responsibility to pay judgments for personal injury or death, or to repay fares in the event of nonperformance of voyages, and for other purposes (with accompanying papers); to the Committee on Commerce.

REPORTS ON FOREIGN CURRENCIES IN THE CUSTODY OF THE UNITED STATES AND BALANCES OF FOREIGN CURRENCIES ACQUIRED WITHOUT PAYMENT OF DOLLARS

A letter from the Secretary of the Treasury, transmitting, pursuant to law, a report on foreign currencies in the custody of the United States, for the period July 1, 1965, through December 31, 1965, and a semiannual consolidated report of balances of foreign currencies acquired without payment of dollars, as of December 31, 1965 (with accompanying reports); to the Committee on Foreign Relations.

REPORT OF THE GOVERNOR OF GUAM

A letter from the Assistant Secretary of the Interior, transmitting, pursuant to law, a report of the Governor of Guam, for the fiscal year ended June 30, 1965 (with an accompanying report); to the Committee on Interior and Insular Affairs.

REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE U.S. COURTS

A letter from the Director, Administrative Office of the U.S. Courts, Washington, D.C., transmitting, pursuant to law, his report, for the fiscal year 1965 (with an accompanying report); to the Committee on the Judiciary.

REPORT OF BOARD OF ACTUARIES OF THE CIVIL SERVICE RETIREMENT SYSTEM

A letter from the Chairman, U.S. Civil Service Commission, Washington, D.C., transmitting, pursuant to law, a report of the Board of Actuaries of the Civil Service Retirement System, for the fiscal year ended June 30, 1964 (with an accompanying report); to the Committee on Post Office and Civil Service.

DESECRATION OF THE FLAG—PETITION

The ACTING PRESIDENT pro tempore laid before the Senate the petition of Alice M. Mahoney and Joseph Mahoney, of Yonkers, N.Y., praying for the enactment of Senate bill 3207, to prohibit the desecration of the flag of the United States, which was referred to the Committee on the Judiciary.

REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. SYMINGTON, from the Committee on Armed Services, without amendment: H.R. 13369. An act to authorize the disposal of molybdenum from the national stockpile (Rept. No. 1133).

By Mr. JACKSON, from the Committee on Armed Services, with amendments:

S. 2421. A bill to make retrocession to the State of Washington of jurisdiction over lands comprising the Fort Canby-Cape Disappointment area near the mouth of the Columbia River (Rept. No. 1134).

INCREASE IN ANNUITIES PAYABLE FROM DISTRICT OF COLUMBIA TEACHERS' RETIREMENT AND ANNUITY FUND—REPORT OF A COMMITTEE—ADDITIONAL VIEWS (S. REPT. NO. 1135)

Mr. BIBLE. Mr. President, from the Committee on the District of Columbia, I report favorably, with amendments, the bill—H.R. 11439—to provide for an increase in the annuities payable from the District of Columbia teachers' retirement and annuity fund, to revise the method of determining the cost-of-living increases in such annuities, and for other purposes, and I submit a report thereon. I ask unanimous consent that the report be printed together with the additional views of the Senator from Vermont [Mr. PRUTY] and the Senator from Colorado [Mr. DOMINICK].

The ACTING PRESIDENT pro tempore. The report will be received, and the bill will be placed on the calendar; and, without objection, the report will be printed, as requested by the Senator from Nevada [Mr. BIBLE].

BILLS AND JOINT RESOLUTION INTRODUCED

Bills and a joint resolution were introduced, read the first time, and, by

APPROPRIATIONS—EXECUTIVE OFFICE

Committee on Appropriations: Subcommittee concluded its hearings on H.R. 14266, fiscal 1967 appropriations for the Treasury and Post Office Departments, and the Executive Office, with testimony from Charles L. Schultze, Director, Bureau of the Budget, on funds for his Bureau and other Executive Office items; Gardner Ackley, Chairman, Council of Economic Advisers; Bromley Smith, Executive Secretary, National Security Council; Norman O. Tietjens, Chief Judge, Tax Court of the U.S.; Norman Beckman, Advisory Commission on Intergovernmental Relations; and several public witnesses on various items in the bill.

MILITARY PROCUREMENT

Committee on Armed Services: Committee, in executive session, ordered favorably reported with amendment S. 2950, fiscal 1967 authorizations for military procurement.

Committee also approved H.R. 13369, authorizing disposal of molybdenum from the national stockpile; S. 2421, relinquishing to the State of Washington jurisdiction over the Fort Canby-Cape Disappointment area; and 2,969 nominations in the Army, Navy, Air Force, and Marine Corps.

MILITARY CONSTRUCTION

Committee on Armed Services: Military Construction Subcommittee continued its hearings, in both open and executive sessions, on S. 3105, fiscal 1967 authorizations for military construction, with further testimony on construction items for their department from Maj. Gen. R. H. Curtin, Director of Civil Engineering, and Col. James W. Fenlon, Civil Engineering Programs Division, both of the Air Force. Subcommittee also received testimony from Senator Kennedy, of Massachusetts, regarding the closing of the Springfield Armory.

Hearings continue on Tuesday, April 26.

HOUSING

Committee on Banking and Currency: Subcommittee on Housing continued its hearings on pending legislation dealing with housing and mass transportation matters, including S. 2842, 2977, and 2978, having as its witnesses Neil S. Blaisdell, mayor of Honolulu, and president of the U.S. Conference of Mayors; C. David Loeks, American Institute of Planners; James H. J. Tate, mayor of Philadelphia, representing the National League of Cities; William Levitt, a builder of New York City; Dr. David W. Mullins, who represented the National Association of State Universities and Land Grant Colleges, and several other educational associations; and John H. Haas, General Improvement Contractors Association.

Hearings continue tomorrow.

OCEAN CRUISE SHIPS

Committee on Commerce: Subcommittee on Merchant Marine and Fisheries continued hearings on pending bills requiring evidence of financial security and stricter regulation of ocean cruises (S. 1351, 2417, and H.R. 10327), having as its witnesses Rear Adm. John Harllee, U.S. Navy (ret.), Chairman, Federal Maritime Commission; Alvin Shapiro, American Merchant Marine Institute; Carl C. Davis, General Counsel, Maritime Administration; and Andrew Watson, assistant general manager, Chamber of Shipping of the United Kingdom.

Hearings continue on Friday, April 29.

FOREIGN AFFAIRS PERSONNEL SYSTEM

Committee on Foreign Relations: Special subcommittee continued its hearings on H.R. 6277, authorizing establishment of a unified foreign affairs personnel system for the Department of State, AID, and USIA, and on nominations of USIA officers named for appointment as Foreign Service officers receiving testimony from Thomas G. Walters, G. Warren Morgan, and Bernard Wiesman, all of the American Federation of Government Employees; John A. McCart, Government Employees' Council, AFL-CIO; Joseph E. Johnson, Carnegie Endowment for International Peace; Francis W. Stover, Veterans of Foreign Wars; and John S. Mears, the American Legion.

Hearings were recessed subject to call of the Chair.

ANTITRUST

Committee on the Judiciary: The Antitrust and Monopoly Subcommittee continued its hearings in connection with its study of international aspects of antitrust, having as its witnesses Anthony M. Solomon, Assistant Secretary of State for Economic Affairs; Frances L. Hall, International Trade Analysis Division, Department of Commerce; and Roy Blough, graduate school of business, Columbia University. The witnesses addressed their remarks to the topic of "Evolving International Economic Relationships."

Hearings continue on Tuesday, April 26.

MINE SAFETY

Committee on Labor and Public Welfare: Subcommittee on Labor, in executive session, approved for full committee consideration with amendments H.R. 8989, to promote health and safety in metal and nonmetallic mineral industries.

FEDERAL EMPLOYEES' PAY

Committee on Post Office and Civil Service: Committee continued its hearings on H.R. 14122, providing salary increases for Federal employees, having as its witness Richard J. Murphy, Assistant Postmaster General.

Hearings continue tomorrow.

House of Representatives

Chamber Action

Bills Introduced: 17 public bills, H.R. 14576-14592; 3 private bills, H.R. 14593-14595; and 9 resolutions, H.J. Res. 1081-1085, H. Con. Res. 629 and 630, and H. Res. 823 and 824, were introduced. Pages 8374-8375

Legislative Program: The legislative program for the week of April 25-30 was announced by the majority leader. Agreed to House adjournment from Thursday to Monday. Pages 8329-8330

Calendar Wednesday: Agreed to dispense with Calendar Wednesday business of April 27. Pages 8330

Program for Monday: Adjourned at 12:36 p.m. until Monday, April 25, 1966, at 12 o'clock noon when the House will consider H.R. 12617, amending the act providing for economic and social development in the Ryukyu Islands (1 hour of debate).

Committee Meetings

PROCUREMENT AUTHORIZATION

Committee on Armed Services: Met in executive session and continued on H.R. 13456, to authorize appropriations during the fiscal year 1967 for procurement of aircraft, missiles, naval vessels, and tracked combat vehicles, and research, development, test, and evaluation for the Armed Forces, and to maintain parity between military and civilian pay. Testimony was heard from Stanley Resor, Secretary of the Army; Gen. Creighton W. Abrams, Jr., Acting Chief of Staff, Army; Maj. Gen. F. J. Chesarek, Assistant Deputy Chief of Staff for Logistics, Department of the Army; and Maj. Gen. John A. Goshorn, Director of Procurement, Office of the Assistant Secretary of the Army.

PARTICIPATION SALES ACT

Committee on Banking and Currency: Met in executive session and ordered reported favorably to the House the following bills:

H.R. 14544 (amended), the Participation Sales Act of 1966; and

S. 2499 (amended), to authorize the issuance and sale of participation interests based on loan pools held by the Small Business Administration, and the setting aside of a portion or all of the loans held by the Small Business Administration in a trust guaranteeing the payment thereof.

Prior to the executive session the committee met in open session on H.R. 14544, title above, and heard testimony from Joseph W. Barr, Under Secretary of the Treasury; and Charles L. Schultze, Director, Bureau of the Budget.

LIBRARY SERVICES AND CONSTRUCTION

Committee on Education and Labor: Select Subcommittee on Education continued hearings on Library Services and Construction Act amendments. Testimony was heard from Representative Pepper and public witnesses.

FOREIGN ASSISTANCE ACT

Committee on Foreign Affairs: Met in executive session and continued consideration of H.R. 12449, to amend further the Foreign Assistant Act of 1961; and H.R. 12450, to promote the foreign policy, security, and general welfare of the United States by assisting peoples of the world in their efforts toward internal and external security. Testimony was heard from Joseph J. Sisco, Assistant Secretary of State for International Organization Affairs.

AFRICAN AFFAIRS

Committee on Foreign Affairs: Subcommittee on Africa met in open session and viewed a film entitled "South African Essay: One Nation, Two Nationalisms."

ANNOUNCEMENT—CONSUMERS ACT

The Subcommittee on Executive and Legislative Reorganization of the Committee on Government Operations announced that it will conduct public hearings on H.R. 7179, the Consumers Act of 1965, on April 29 and 30 in New York City.

NATIONAL MEMORIAL

Committee on Interior and Insular Affairs: Subcommittee on National Parks and Recreation met in executive session and approved for full committee action H.R. 7402 (amended), to provide for the establishment of the Chamizal Treaty National Memorial in the city of El Paso, Tex. Also considered H.R. 517 and H.R. 698, to provide for the establishment of the Guadalupe Mountains National Park in the State of Texas. No final action was taken.

RAILROAD RETIREMENT ACT

Committee on Interstate and Foreign Commerce: Subcommittee on Commerce and Finance, held a hearing on H.R. 9712 and S. 2266, to authorize transfer of certain art objects to the Smithsonian Institution; H.R. 14355 and H.R. 7298, technical amendments to the Railroad Retirement Act, the Railroad Unemployment Insurance Act, and the Railroad Retirement Tax Act; and H.R. 10537, and related bills, regarding benefits for students under the Railroad Retirement Act. Testimony was heard from Representative Ryan; Howard W. Habermeyer, Chairman, Railroad Retirement Board; and public witnesses.

April 21, 1966

CONGRESSIONAL RECORD — SENATE

8327

DENTAL CORPS

Francis J. Fabrizio

SUPPLY CORPS

Charles W. Shattuck James E. Gay
Leslie T. Maiman Paul N. Howell

CHAPLAIN CORPS

Ray C. Tindall

Rear Adm. Rufus L. Taylor, U.S. Navy,
having been designated, under the provisions
of title 10, United States Code, section 5231,

for commands and other duties determined
by the President to be within the contem-
plation of said section, for appointment to
the grade of vice admiral while so serving.

U.S. MARINE CORPS

The following-name officers of the Marine
Corps for permanent appointment to the
grade of major general:

Louis B. Robertshaw Paul J. Fontana
Rathvon McC. John H. Masters
Tompkins George S. Bowman, Jr.

The following-name officers of the Marine
Corps for permanent appointment to the
grade of brigadier general:

Raymond G. Davis Donn J. Robertson
Edward H. Hurst Lowell E. English
Charles J. Quilter Alvin S. Sanders

The following-named officer of the Marine
Corps Reserve for permanent appointment
to the grade of brigadier general:

Russell A Bowen

House of Representatives

THURSDAY, APRIL 21, 1966

The House met at 12 o'clock noon.

The Reverend William Logan, associate pastor, Aldersgate Methodist Church, Alexandria, Va., offered the following prayer:

John 3: 16-17: *For God so loved the world, that He gave His only begotten Son, that whosoever believeth in Him should not perish, but have everlasting life.*

For God sent not His Son into the world to condemn the world; but that the world through Him might be saved.

Let us pray.

Our gracious Heavenly Father, we bow before Thee with grateful hearts for our many blessings. We thank Thee for our great Nation with all its opportunities, resources, and people. Grant that we may do our part to make our land truly deserve its greatness.

Let us never take for granted the freedom that is ours; nor persuade ourselves that because freedom is our heritage it belongs to us and cannot be taken away. Rather let us treasure it, realizing that it cannot survive without faith in Thee and in the worth and dignity of every human life.

May these chosen persons begin their duties this day in a prayerful state of mind. Grant them the wisdom and strength to meet perplexing issues. Give them courage to take a stand for what they believe is right for all men even if it is unpopular. Grant them humility that they will not seek power for themselves or even for the Nation, if it involves trampling on those in an inferior position.

Give us a sense of Thy ever-present nearness. May we all be conscious, in this age of great change, of the need for divine help, and be directed to think, speak, and do only what Thou wouldst have us do. We ask it in Thy holy name. Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

ANNIVERSARY OF SAN JACINTO DAY

(Mr. PATMAN asked and was given permission to extend his remarks at this point in the RECORD, and to include extraneous matter.)

Mr. PATMAN. Mr. Speaker, Texans remember the victory of San Jacinto just as they remember with pride the other stirring events of the struggle for Texas independence. Remembering our origins is part of our heritage as Texans, and a proud heritage it is.

Today, the San Jacinto Battleground, on the ship channel about 22 miles east of bustling and prosperous downtown

Houston, is a quiet and lovely State park, a favorite picnic spot, and a place of great interest to students of history. Nearby, the battleship *Texas* is permanently moored.

Scenes of the decisive struggle that transpired here are recalled by the stone markers which dot the San Jacinto Battleground. Here it was that Sam Houston fell wounded, his horse shot dead from under him. There it was that Santa Anna camped with his troops, and under a tree which once grew on this very spot he was brought a prisoner to the victorious Sam Houston.

Visitors to the battleground are inspired by the massive 570-foot San Jacinto Monument which is topped by a gigantic Texas star and faced with Texas fossilized buff limestone. Inside the monument, an elevator takes visitors to an observation room. Circling the base of the monument are carvings and inscriptions which tell the dramatic story of the Texas revolution. Inside the base of the monument is housed the San Jacinto Museum of History, operated for the State of Texas by the San Jacinto Museum of History Association, a non-profit educational organization. The museum was furnished and equipped by the donations of public-spirited Texans.

It was on March 11, 1836, that Sam Houston arrived at Gonzales to take command of the little force of about 400 men which was to be the nucleus of the Texas army of defense. Two days later, news of the fall of the Alamo that came to Gonzales led to a retreat. Similar disheartening news from James Walker Fannin came to Houston when he was on the Colorado, and though his army had been increased by recruits he nevertheless retreated again, despite much counsel to the contrary.

He finally halted to wait for the movements of the victorious Mexican enemy in the rough country on the upper Brazos.

After a delay of 2 weeks, Houston and his men crossed the Brazos. Almost at the same moment, with an advance guard of 750 men, General Santa Anna made a crossing farther down the river, and moved toward the temporary capital of Harrisburg. Houston marched toward the same point. During all of this weary time he had been doing what he could to minimize the forces of the enemy and to train and encourage his men.

It was on April 20, 1836, that with 783 men he overtook Santa Anna who had an almost equal force. They met where Buffalo Bayou enters the San Jacinto River. For an entire day, broken only by an indecisive cavalry skirmish, the two small armies lay within each other's view.

Santa Anna was reinforced by 500 men the next morning, April 21. The Mexi-

cans became overconfident and were surprised in their camp by an attack in the afternoon. They were completely defeated in an engagement which lasted only 15 minutes. Almost the entire Mexican force was killed or captured, while the Texans lost only 6 men killed and 25 wounded. Sam Houston himself, shot through the ankle, was among those who were wounded.

Santa Anna was taken prisoner. He was persuaded to sign an order for the retreat of his other forces, an order already anticipated by the Mexicans. Sam Houston wrote a clear account of his campaign, and advised President David Burnet that Santa Anna should be used as a hostage for the preservation of the peace. He then left his victorious army in order to seek medical attention in New Orleans.

He soon afterward returned to Texas where he was elected President. He took the oath of office at Columbia on October 22, 1836. A few months later he secured the recognition of the new Republic by the U.S. Government.

The valor of the Texans on that day at San Jacinto is one of the great achievements in our struggle for independence that will be remembered forever. Today we salute the memory of those who fought so bravely and so well in a cause which we will always revere.

PARTICIPATION SALES ACT OF 1966

(Mr. STEPHENS asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. STEPHENS. Mr. Speaker, before the Banking and Currency Committee we have the Participation Sales Act of 1966. I support this bill because I believe that in proposing this legislation, President Johnson asked for the next logical step in a time-tested policy of substituting private for public credit—a policy which is in the best interest of the Nation, and which contributes directly to the sound financing of the Federal Government.

This is not a new policy. It goes back to the mid-1950's. It carries the endorsement of Democrats and Republicans, of people in government, and out of government.

Let me tell you just a few things that have been said about this policy:

In his budget message of January 1955, President Eisenhower said:

Private capital will be gradually substituted for the Government investment until the Government funds are fully repaid and the private owners take over responsibility for the program.

In 1961, the Commission on Money and Credit—a commission set up by the

Committee on Economic Development, an independent group of businessmen interested in the Nation's economic welfare had this to say on the subject of substituting private for public credit:

The choice among types of credit programs should be made on the basis of which will be effective at the least cost and which will interfere least with the private financial system. Where it can be effective, a loan guarantee type of program should take preference over the direct lending type of program.

That Commission by the way was chaired by Frazar B. Wilde, chairman of the Connecticut General Life Insurance Co., and it included among other illustrious members our present Secretary of the Treasury, Henry H. Fowler.

In 1962, President Kennedy's Committee on Federal Credit Programs had this to say on the subject of substituting private for public credit:

Accordingly, the Committee believes that Federal credit programs should, in the main and whenever consistent with essential program goals, encourage and supplement, rather than displace private credit.

That Committee was headed by Douglas Dillon, then Secretary of the Treasury, and included William McChesney Martin.

This legislation, which provides the effective and efficient and economical means to continue this vital program of substituting private for public credit, deserves our support. For my part I support it wholeheartedly.

COCHON DE LAIT FESTIVAL

(Mr. LONG of Louisiana asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. LONG of Louisiana. Mr. Speaker, in the Eighth Congressional District of Louisiana, which I represent, there is a town noted for its French traditions, for its southern hospitality and its *bons vivants*. This town is one like many others in the State. The town to which I am referring in this instance is Mansura, La., located in the Parish of Avoyelles, which celebrates its 106th birthday this year.

Mansura is said to have been named by ex-soldiers of Napoleon, early settlers, who had been with him on his Egyptian campaigns and saw a resemblance between the Avoyelles prairie lands and Mansura, Egypt.

The people of Mansura are characterized by hard work and hard play. Six years ago, to celebrate the town's centennial, the citizens revived an old French custom known as the *cochon de lait*. The literal translation of "*cochon de lait*" is suckling pig, but in Mansura the words connote the town's annual festival where many 20- to 30-pound pigs are roasted over open hickory fires and the accompanying fun and gaiety is enjoyed by all the townspeople and visitors from miles around.

The pigs are constantly turned on a spit for 6 to 8 hours until they have attained a golden honey brown and the excess fat is thoroughly drained. The aroma is breathtaking and the flavor is never to be forgotten.

Mr. Speaker, the exclusive title of "*La Capitale de Cochon de Lait*" was made into law May 24, 1960, by the wishes of the mayor, Kirby Roy, Jr., and the town council and signed by the Governor of Louisiana.

The document now stands in the town's city hall in recognition of Mansura's exquisite culinary art in the French tradition.

The resolution reads:

Whereas the town of Mansura is one of the oldest French settlements in the State of Louisiana; and

Whereas the town of Mansura wishes to preserve the customs and traditions of its ancestors; and

Whereas the preparation of the *cochon de lait* is a time-honored custom peculiar to the locality and surrounding area; and

Whereas the culinary artistry used in the preparation of this delicacy is admired by people throughout the world: Now, therefore, be it

Resolved by the House of Representatives of the Legislature of the State of Louisiana (the Senate concurring), That the town of Mansura is hereby recognized as La Capitale de Cochon de Lait of the world.

Mr. Speaker, let me take this opportunity to invite all who love good food and fun to attend the *cochon de lait* in Mansura, La., April 29 to May 1.

IS IT NECESSARY TO WEAKEN OUR FORCES IN EUROPE?

(Mr. SIKES asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. SIKES. Mr. Speaker, the Vietnam war has placed a heavy drain upon the U.S. military forces and equipment. It becomes an even more serious matter when we find it necessary to withdraw skilled personnel from our forces in Europe in order to assure the proper build-up of U.S. fighting forces in Vietnam. This is disturbing from a number of viewpoints. One is the impact upon our allies in Europe. The French have created a very unsettled situation by disavowing their NATO commitments. The U.S. forces are the mainstay of allied strength. The U.S. forces already had been deprived of some of their effectiveness by drawdown of equipment for the war in Vietnam. Now a withdrawal of trained personnel will have a further demoralizing effect in Europe and this action will broaden the invitation for the Russians to start trouble.

It is a sobering thing that U.S. action in a small country like Vietnam should put such a strain upon the resources of our Armed Forces. It is now obvious that an additional involvement anywhere in the world, or a general broadening of the conflict in southeast Asia, would require a general mobilization. This, despite the fact that more than half of each \$100 billion annual budget goes into defense. None of this is lost on the Communists.

There is a source of trained manpower which is being disregarded by the Pentagon. For some unaccountable reason, it is not policy to use the Nation's trained reservists in the current crisis. For years units and individuals have maintained a state of readiness in order that the Na-

tion may have the advantage of their skills in time of crisis. Yet, we see ourselves become more and more deeply involved in the Vietnamese conflict and no reservists are called. It is time for a frank assessment of the situation. If the Pentagon does not intend to use the reservists in time of war, it could be said there is no justification for the continued expense of maintaining the Reserve components. In any event, the Pentagon should spell out to the Congress and to the Nation its plans for utilization of the Reserves.

ISN'T THERE A DANVILLE SOMEWHERE THAT WANTS POVERTY MONEY? TWO DOWN—FOUR TO GO

(Mr. GOODELL asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. GOODELL. Mr. Speaker, overzealous Federal poverty officials at OEO apparently crave a community called Danville in the United States that needs poverty money. A month ago, OEO pressed Danville, Ind., a community of 3,287, to set up a community action board to receive and administer poverty funds. Local citizens resisted, causing Senator BIRCH BAYH to inquire of OEO, "Why Danville?"

The reply came back to Senator BAYH that Danville, Ind., needed a community action program because they had 1,339 families with annual incomes under \$1,000 and 1,979 families receiving aid to dependent children—ADC. On this basis, continued OEO officials, who could deny Danville help? Pressing the matter further, an OEO official visited Danville and to his consternation discovered that their poverty statistics did not match Danville, Ind. Quickly recovering, regional poverty officials answered:

Those figures are for Danville, Ill.—an understandable mistake.

The only difficulty came when it developed that the poverty figures were not for Danville, Ill., either. At this point, I suppose OEO officials said: "There must be a Danville that fits our pattern of poverty." Sadly, however, a check of the population division of the Census Bureau indicated there were only six Danvilles in the country and none of them fitted the poverty profile prepared by OEO.

Perhaps the news media could now, as a public service, assist Federal poverty officials, who dearly wish to help a Danville, by running—apropos of Peter Pan—the following nationwide ad: "Isn't there someone out there, from a Danville somewhere, who believes?"

LEGISLATIVE PROGRAM FOR WEEK OF APRIL 25

(Mr. GERALD R. FORD asked and was given permission to address the House for 1 minute.)

Mr. GERALD R. FORD. Mr. Speaker, I ask for this time for the purpose of inquiring of the distinguished majority leader as to the program for the remainder of the week and what is to be programmed for next week.

Mr. ALBERT. Mr. Speaker, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the distinguished majority leader.

Mr. ALBERT. Mr. Speaker, in response to the inquiry of my distinguished friend, we have no further legislative business this week, and we shall ask to go over to next week upon the announcement of the program for next week.

The program for next week is as follows: Monday is District day. There are no District bills. Monday we have programmed H.R. 12617, amending the act providing for economic and social development in the Ryukyu Islands, with an open rule and 1 hour of debate.

On Tuesday the Agriculture Appropriation Act, 1967.

Wednesday and the balance of the week, H.R. 10065, Equal Employment Act of 1966. Open rule, 2 hours of debate.

H.R. 13881, transportation, sale, and handling of dogs and cats for research purposes. Open rule, 2 hours of debate.

This announcement, of course, is made subject to the usual reservation that conference reports may be brought up at any time.

ADJOURNMENT OVER

Mr. ALBERT. Mr. Speaker, I ask unanimous consent that when the House adjourns today it adjourn to meet on Monday next.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

DISPENSING WITH CALENDAR WEDNESDAY BUSINESS

Mr. ALBERT. Mr. Speaker, I ask unanimous consent that the business in order on Calendar Wednesday of next week be dispensed with.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

REPUBLICAN POLICY COMMITTEE STATEMENT ON THE AMERICAN MARITIME INDUSTRY

(Mr. RHODES of Arizona (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. RHODES of Arizona. Mr. Speaker, at a recent meeting of the House Republican policy committee a policy statement regarding the American maritime industry was adopted. As chairman of the policy committee, I would like to include at this point in the RECORD the complete text of this statement:

REPUBLICAN POLICY COMMITTEE STATEMENT ON THE AMERICAN MARITIME INDUSTRY

America is facing a crisis of major proportions with respect to its vital merchant marine. At the close of World War II, this country had a merchant marine fleet of over 3,500 vessels. By 1951 there were 1,955 active U.S.-flag ships. Today there are only 1,000, including those reactivated for the Vietnam war, and most of these are over 20 years old and near the end of their economic life.

The United States has dropped to 12th place among the world's major shipbuilding nations. Russia, on the other hand, has risen from 12th to 7th place as a maritime nation and is presently building an even larger merchant marine which she intends, by her own admission, to utilize as an instrument of foreign policy.

On January 1, 1966, the United States had only 45 ships under construction. And President Johnson's budget for fiscal 1967 provides only \$85 million for our merchant marine ship construction. This represents a cut of \$47 million from appropriations for the current year. It would permit construction of a maximum of 13 new ships. It is both significant and tragic that the administration's total maritime budget for 1967 set a 7-year low. Although the 1965 state of the Union message promised "a new policy for our merchant marine," nothing has materialized and the bickering and confusion among the various governmental agencies continues and grows.

By contrast, Russia boasts a merchant fleet of almost 1,500 vessels. Most are new and efficient ships built since 1950. Soviet orders for new ships rose from 225 in 1962 to 673 in 1964. Moreover, the Soviet Union is utilizing its satellites, and the Free World at a substantial cost in hard currency, for its merchant fleet expansion. For example, East German shipyards are scheduled to supply 399 merchant vessels. The Polish yards are working on Soviet orders for timber carriers and tankers.

The inadequacy of America's shipbuilding program is further highlighted by the fact that Japan has 139 merchant ships under construction, Great Britain 184 vessels, West Germany 176, and Sweden 44.

At the same time that our shipbuilding effort is lagging and our World War II reserve fleet is growing older and more dilapidated, the expanding war in Vietnam is putting the U.S. merchant fleet under tremendous pressure. Tonnage volume to Vietnam has leaped from 300,000 tons per month to 800,000 tons per month. Almost 470 ships are now under direct operational control of the Military Sea Transportation Service and most of these are engaged in the sealift to Vietnam. Moreover, because U.S. ships were not available, MSTTS had to look to foreign-flag vessels for help.

Much of the present problem is attributable to the fact that several years ago Secretary of Defense McNamara decided that he could reduce the role of ships in the defense picture. According to McNamara, air transport could be substituted as a primary military supply vehicle. Now, just 4 years after this disastrous management decision, two out of every three soldiers in Vietnam had to be transported by ships and, as of January of this year, 98 percent of the supplies and cargo for the war went in by ship. The fact that it would take 260 of the C5A planes to carry the load of a single ship, and air transportation, if utilized, would cost 5 or 6 times as much per ton-mile, further dramatizes our need for and dependency upon ships.

At the same time that shipping presents a grave problem for us, both Communist and free world ships continue to carry goods to and from North Vietnam. In 1965 there were 199 free world ship arrivals in North Vietnam. Of this figure, 107 involved ships flying the flags of NATO countries. We know from our own experience that shipping, and the cargo that it brings to Vietnam, is an all-important factor in the prosecution of the war. Supply problems have hampered our effort. By the same token, Communist and free world ships have supplied much of the goods and military supplies that have made it possible for the North Vietnamese to continue the war. Certainly, at a minimum, the penalties and restrictions imposed upon ships that engage in Cuban trade

should be imposed upon those who trade with North Vietnam.

The merchant marine shipbuilding effort in this country must be increased. Unless this is done, our defense commitments throughout the world will be in jeopardy. Indeed, our national survival may depend upon the shipping that should be under construction but which the Johnson-Humphrey administration has scuttled. We demand that steps be taken to correct this disastrous situation. If the present trend continues, this country that once boasted the greatest merchant fleet in the world, will be left on history's shore waiting for ships that never come in.

WHAT'S HAPPENED TO PATRIOTISM?

(Mr. ASHBROOK (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. ASHBROOK. Mr. Speaker, the April issue of the New Guard, the magazine published by Young Americans for Freedom, contains a timely and provocative article entitled "What's Happened to Patriotism?" by Dr. William Jay Jacobs, who received his doctorate in history at Columbia University and who is currently assistant professor of education at Rutgers, the State university of New Jersey. One cannot help but see a relationship between the efforts of some to debunk this Nation's historical achievements and heroes and the current antics of the draft-card burners, the flag desecrators and some protestors of our firm policy in Vietnam. Fortunately, however, the United States has never suffered from a dearth of heroes, and as fast as our historic men of daring are seemingly interred, new figures take their place.

It must be discouraging to the debunkers of our American heritage to consider the case of Sp. Daniel Fernandez of Los Lunos, N. Mex., who hurled himself upon a Vietcong grenade, thus saving the lives of several comrades. Mr. Jose Fernandez, his father, stated that his son was very generous and always volunteering for something, but the last thing he would want is to be known as a hero.

I wonder how the downgraders would handle the heroism of Pfc. Milton Lee Olive, of Chicago, whose last gesture in this life, like Daniel Fernandez, was to fall on an exploding grenade. A quiet, religious youth, Milton Olive, like the heroes of our past, was described as being devoted to his duty and always wanted to do more than his share.

To grateful and patriotic citizens, every serviceman who willingly gives his life for this Nation is a hero. And for those who, for whatever reason, would belittle our precious heritage in the eyes of our youth, let them ponder these words from the last letter of Pfc. Hiram D. Strickland of Graham, N.C.—a letter to his family found in his personal effects—a letter he would never mail:

I'm writing this letter as my last one. You've probably already received word that I'm dead and that the Government wishes to express its deepest regret. Believe me, I don't want to die, but I know it was part of my job. I want my country to live for billions and billions of years to come.

tion of whether these revolutionary upheavals are instigated by Communists or merely taken over and run by Communists once they are started.

The point is that Communists stand ready to move in at the first sign of disorder, and will do everything they can to take it over, agitate increased violence, and put their people in charge if they can.

THE WAY OUT

The road ahead will be difficult, at best. There are no easy solutions to problems which are infinitely complex. But clearly, this country will make no gains whatever so long as we so blindly refuse to profit from the past.

We have been making the same mistakes over again for so long that we must be the absolute despair of our natural friends in Latin America. One suspects this has already happened in Asia.

How can we go about minimizing mistakes and begin to act the part of a leader in Hemisphere affairs? How can we be a leader for peace and progress? Here are some of the things which would provide a beginning.

First. Let us not be overwhelmed by the Sino-Soviet split. Surely the Administration must know that the Chinese and Russian Communist leaders have differences which are based on relatively superficial ideas, rather than on basic purposes.

Both of these power centers are dedicated to the communization of non-Communist countries everywhere. Their differences are over tactics and timetable in the achievement of the same goal.

The Chinese approach is bellicose, crude, and blatant. The Russian approach is more in accord with the outside appearance of accepted standards of world diplomacy.

The Chinese are open and frank about their aims. The Russians like to appear peaceful. Their aims are usually camouflaged, and therefore are in reality the more dangerous of the two.

Second. While China appeared to be the dominant Communist influence in Cuba some months ago, it is now clear that Russian communism is in charge.

With approximately \$1 million in aid being poured into Cuba by Moscow every day, Castro is playing the Russian game. This should be made clear to the American people, along with the significance of the Havana Conference as a Moscow-engineered program for the militant subversion of Latin American.

Third. Some of the 82 delegations to the Havana Conference appear to have included officials of the countries represented. The information on this point is available.

We should withhold U.S. aid from those countries which may have sent official or semi-official delegations to the conference.

In this connection it should be added that the second Tri-Continental Conference, in other words, the follow-up to the Havana meeting, is scheduled to be held at Cairo in 1968, at the invitation of President Nasser.

Fourth. Instead of considering Latin American policies country-by-country and bit by bit, it is essential that we use

the regional approach. We made the mistake in southeast Asia of considering Laos and Vietnam as two isolated countries as though they were on opposite sides of the world.

Now it often seems that we consider Cuba as one problem and Venezuela as another, with no relation between the two. We need to consider Latin America as a single area which is the target of a single objective as set forth at the Havana Conference.

In this connection it is important that we do everything we can to support the Organization of American States and guide it towards success in its work for strengthening the independence of Latin American countries.

Fifth. The American people should give greater public support to realistic Government policies with regard to Latin America, and should demand that key positions in the Government are filled with persons who do have realistic ideas.

A case in point is the case of Thomas C. Mann. Mr. Mann was appointed Assistant Secretary of State for Inter-American Affairs in November 1963. He did have, generally, realistic ideas of the kind which should lead to true U.S. leadership in the interests of peace and security.

In October 1965, he made a speech in San Diego which was labeled a "hard line" speech. He stressed the Communist threat, and said that collective intervention in Latin American states is justified if they are under attack by subversive elements responding to direction from abroad.

For comments such as these Mr. Mann was labeled "controversial." He was criticized by Senator FULBRIGHT, chairman of the Senate Foreign Relations Committee. And in January he was shifted out of the Latin American policy position into one limited to economic affairs.

CONCLUSION

The overall need in U.S. response to events in Latin America today is the need for true leadership. And one essential ingredient of true U.S. leadership is a candid approach by the Government to the people.

Let the Government demonstrate that we recognize the reality of the Latin American problem. Let us state clearly what the facts are, and what their significance is, and let us not hide behind bland statements of our our hopes.

We can be sure that while U.S. attention is riveted on Vietnam Latin American Communists will use every means at their disposal to implement the declarations of the Havana Conference.

In this situation the non-Communists of Latin America cry out for our leadership. It is only the United States that can provide such leadership. And it is vital that we answer the call.

WE ARE ABOUT TO SEE IT HAPPEN AGAIN

The SPEAKER. Under previous order of the House, the gentleman from Oklahoma [Mr. ALBERT] is recognized for 15 minutes.

(Mr. ALBERT asked and was given permission to revise and extend his re-

marks, and to include certain extracts and reports and other extraneous data.)

Mr. ALBERT. Mr. Speaker, we have seen it happen again. Because they were in such a hurry to say "no" to every administration proposal, some of our Republican friends now find themselves in the embarrassing position of opposing one of their very own ideas.

I refer, of course, to the Participation Sales Act submitted yesterday by the President.

This is a plan to bring more of the private market into our Government lending programs. It has two purposes: first, to help us better use Government funds now tied up in various forms of loans and second, to stimulate growth and prosperity in the private sector of our economy.

Certainly this proposal is in the best traditions of the great free enterprise system.

But what happened yesterday? Without giving any attention to the historic position of the Republican Party, my good friend, the distinguished minority leader and some of his associates decided they had an issue. They pounced on it like a hungry animal. What is it that has happened to the distinguished minority leader lately? Do I detect a sense of political desperation in some of his alarming statements? Or is his objection in this instance just reflex action? Is it just blind adherence to the doctrine of "no-ism"? Is the respected minority leader suffering under a misapprehension about what we are trying to do? Is he really in pain or are his tears just crocodile tears? Whatever the reasons the American people are not going to be fooled by these tactics.

What a pity cooler heads did not prevail. Instead of shouting and name calling, my friend should have been examining the Participation Sales Act. Had they done this they would have found that it would accomplish exactly what responsible Republicans have been advocating for years.

In January 1954, President Eisenhower said in his budget message:

To encourage the substitution of private financing for Federal outlays in the areas of greatest housing need, I shall urge the Congress to authorize two new mortgage insurance programs, as well as to liberalize certain existing programs * * *. The policy of this administration is to sell the mortgages now held by the Association as rapidly as the mortgage market permits. Assuming satisfactory market conditions, receipts from these sales and from other sources in 1955 will exceed expenditures by an estimated \$166 million. This contrasts with net expenditures of \$379 million in 1953, and \$62 million estimated for 1954.

In January 1955:

Private capital will be gradually substituted for the Government investment until the Government funds are fully repaid and the private owners take over responsibility for the program.

The Federal National Mortgage Association will make commitments for immediate or deferred purchases of \$423 million in mortgages insured under the urban renewal, armed services, cooperative, and other especially urgent housing programs which I have specifically designated. Sales of mortgages together with repayments and other

receipts, however, are expected to be \$255 million greater than expenditures.

In January 1956, President Eisenhower stated:

In addition, purchases of mortgages by the Association under its secondary market program are expected to increase in 1957 to \$290 million. Except for temporary Treasury loans, the funds required will be obtained from sale of debentures and stock to private investors, and the purchases are shown as trust expenditures, rather than budget expenditures. By the end of the fiscal year 1957, private purchases of stock will have made an excellent start toward the goal of replacing a Government activity with a private company.

Again in January 1958, President Eisenhower said:

With more realistic mortgage prices, it should be possible to restore the incentive for private financing originally intended under the Housing Act of 1954 and thus avoid the necessity for additional large amounts of new obligational authority to finance purchases of mortgages under this program and under programs for armed services and cooperative housing.

But the record only begins here.

Leading Republicans in private life—chairmen of the Nation's biggest banks, investment houses and industrial firms have recommended the substitution of private for public credit—the very heart of the Participation Sales Act.

The report of the 1961 Commission on Money and Credit was based on the principle that the private market should be gradually substituted for Government investment.

The Chairman of the Committee was Mr. Frazer B. Wilde, chairman of the Connecticut General Life Insurance Co., one of the Nation's largest.

Some of the other members were:

David Rockefeller, president of the Chase Manhattan Bank, one of the world's largest.

Gaylord A. Freeman, Jr., president of the First National Bank of Chicago, one of the largest financial institutions in the West.

Lamar Fleming, Jr., chairman of the board of Anderson, Clayton & Co., a large industrial firm.

Joseph M. Dodge, President Eisenhower's Director of the Budget and chairman of the board of the Detroit Bank & Trust Co.

But let me continue.

The very next year, in 1962, some of our most distinguished, outstanding, and knowledgeable public officials who participated in the Committee on Federal Credit Programs supported the principles now embodied in the Participation Sales Act. I will quote from a key recommendation of its report:

Accordingly, the Committee believes that Federal credit programs should, in the main and whenever consistent with essential program goals, encourage and supplement, rather than displace, private credit.

Government-financed credit programs should, in principle, supplement or stimulate private lending, rather than substitute for it. They should not be established or continued unless they are clearly needed. Unless the urgency of other goals makes private participation infeasible, the methods used should facilitate private financing, and thus encourage longrun achievement of program objectives with a minimum of Government aid.

This report was unanimous—signed by then Treasury Secretary Douglas Dillon and Federal Reserve Board Chairman William McChesney Martin, then Budget Director David Bell and then Chairman of the Economic Advisers Walter Heller.

Finally from the pens of some of the most knowledgeable House Republicans in the field of fiscal and monetary policies comes the strongest endorsement of all for what the President is trying to accomplish in the Participation Sales Act.

These Republican experts—and there were 10 of them in all—members of the Committee on Ways and Means, only 2 years ago urged the Government to embark on comprehensive program of asset sales.

The rollcall is long and distinguished: Representative John S. Byrnes, Representative Howard H. Baker, Representative THOMAS B. CURTIS, Representative Victor A. Knox, Representative JAMES B. UTT, Representative JACKSON E. BETTS, Representative Bruce Alger, Representative Steven B. Derounian, Representative HERMAN T. SCHNEEBELI, and Representative HAROLD R. COLLIER.

And here is what they said in pertinent part in the minority report on H.R. 6009 which was a bill to provide temporary increases in the public debt limit:

The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets. This provides the Treasury with another "cushion."

For example, when the Secretary of the Treasury was before the committee on February 27, we suggested that it was incumbent upon the administration to show "good faith" before coming to the Congress for an additional increase in borrowing authority. We pointed out that the Government held about \$30 billion in loans, many of which were readily marketable. In fact, there was a very good market for many of these loans. Instead of increasing its offering of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in its borrowing authority.

It was also pointed out to the Secretary of the Treasury that the Government had other assets which might be liquidated, such as the stockpile of strategic materials amounting to about \$8.7 billion.

Our refusal to grant the administration's request last February produced "results." In the interim of less than 2 months the administration found that it could increase revenues from the sale of loans by an additional \$1 billion for fiscal 1963. Now, the administration estimates that it will realize \$2.028 billion—as contrasted with an original estimate of only \$0.929 billion less than 2 months ago.

These are the facts that the distinguished minority leader and some of his colleagues would have discovered about the Participation Sales Act if they had read before they condemned. I think they should be reminded just where they stand—in relation to where their party has stood for more than a decade. For they are long on words and short on memory.

I hope that once their memories are refreshed they will reaffirm their party's dedication to the free enterprise system and help us enact this enlightened item of legislation into law.

I say this because I think it would be good for the country.

Mr. JONAS. Mr. Speaker, will the distinguished majority leader yield?

Mr. ALBERT. I yield to the distinguished gentleman from North Carolina.

Mr. JONAS. The distinguished majority leader has not, of course, referred to me.

Mr. ALBERT. No, I did not.

Mr. JONAS. It is not my prerogative to speak for the minority—

Mr. ALBERT. The gentleman always makes an excellent contribution on any subject in which he interests himself.

Mr. JONAS. Thank you, sir. I appreciate those words and I shall try to make this constructive.

Will not the distinguished majority leader recognize that there is a great deal of difference in bringing in private capital to provide funds than having the Government provide the capital originally and then sell the mortgages at a discount? That is what is contemplated, if the gentleman will yield, in this act to which reference has been made. The taxpayers will be asked to pick up the difference between the market value of these mortgages and what investors in the private segment of the economy will pay for them.

Mr. ALBERT. Of course, what they will pay is speculative, but I think the substance of the minority views on H.R. 6009 will answer the distinguished gentleman; namely, what they were driving at was to prevent the necessity of the Government borrowing more money, and that is important. I think that is critical here. It will mean a lot of difference as to the future obligations of the Government of the United States at a time when interest rates are quite high.

Mr. JONAS. May I comment on that?

Mr. ALBERT. Surely.

Mr. JONAS. Of course, the report to which reference has been made was signed when the money market was quite different than what it is today. Today everyone admits that money is tight and becoming tighter, and interest rates are considerably higher today than they were then. The effect is that these mortgages to which my distinguished friend, the majority leader, is referring to cannot be sold at par, and the taxpayers will have to subsidize them by putting up the difference.

Mr. ALBERT. The gentleman will understand, of course, that if the Government has to borrow money, it will be subject to the tight money situation to which the gentleman has alluded in his comments.

Mr. JONAS. May I say, and speaking for myself personally, I would like to have the Government sell all of these mortgages if it can sell them at par. But they cannot be sold at par. They have to be sold at a discount, and the only way they can be sold at all is for the taxpayers to put up the difference in money.

Mr. ALBERT. I think the answer is that whatever is best for the Government and will cost the Government the least in the long run will be the best action, and I think the administration will pursue this matter with that in mind.

Mr. JONAS. I certainly concur in the view that what is best for the country should be done, and I intend to support what I think is best for the country.

Mr. ALBERT. I know the gentleman does.

Mr. HALL. Mr. Speaker, will the gentleman yield?

Mr. ALBERT. I yield to the distinguished gentleman from Missouri.

Mr. HALL. Mr. Speaker, I appreciate the gentleman's yielding. I simply want to know when we are going to get this Presidential message I have been hearing about for 2 days.

Mr. ALBERT. Mr. Speaker, will the gentleman yield?

Mr. HALL. I yield to the gentleman.

Mr. ALBERT. We got the President's message yesterday.

Mr. HALL. It was not delivered to the Members.

Mr. ALBERT. I believe it was read yesterday. I think the gentleman will find it, if I am not mistaken, in the CONGRESSIONAL RECORD. I see the distinguished gentleman, the chairman of the Banking and Currency Committee, here, whose committee is very busy on this subject now.

Mr. PATMAN. Mr. Speaker, will the gentleman yield?

Mr. ALBERT. I yield to the gentleman.

Mr. PATMAN. We had hearings on this matter this morning. We had Under Secretary Ball, and the Director of the Bureau of the Budget, Mr. Schultze. We will have another meeting at 2 o'clock this afternoon. It is contemplated we will remain in session this afternoon until we dispose of this. If it is not completed today, it will be continued tomorrow.

Mr. ALBERT. Mr. Speaker, the gentleman will find it, I believe, in the CONGRESSIONAL RECORD.

Mr. PATMAN. Mr. Speaker, the bill to carry out the President's request will be forthcoming.

Mr. HALL. Mr. Speaker, if the gentleman will yield further, I was on the floor constantly yesterday. I did not leave, as I customarily do not. I did not know it was read, because had it been read I would have honored the President's message, as I customarily do, with a quorum call, so that all might have heard it.

It may well have been submitted, it may well have been printed, but it was not read as a message in accordance with the custom that we have lately adopted for the President's messages, nor was it read on the floor of the House, because I sat here, alert and eager, to perform that function in honor of the President's words.

Mr. ALBERT. Mr. Speaker, I may be mistaken.

Mr. HALL. Mr. Speaker, I believe the distinguished majority leader is mistaken.

If he will yield further, I would like to know, of the chairman of the Banking and Currency Committee, if he plans to hear other than administration witnesses as he goes through the sessions?

Mr. ALBERT. Mr. Speaker, may I say I do not know whether we got a message or a communication. We did

have a communication from the White House on that subject. Am I right?

Mr. PATMAN. We had a communication.

Mr. ALBERT. Mr. Speaker, I am sure we had a communication from the White House on this matter yesterday.

Mr. HALL. Mr. Speaker, I wonder if the chairman of the Banking and Currency Committee can answer the other question?

Mr. PATMAN. There was a communication.

Mr. HALL. Does the committee plan to hear other than administration witnesses?

Mr. PATMAN. That will depend on the wishes of the majority of the committee.

Mr. HALL. I presumed that would be the answer.

The SPEAKER. The Chair states that the message yesterday was an executive communication, which of course under the rule was referred to the Committee on Banking and Currency.

Mr. HALL. Mr. Speaker, the message was referred, then, without being read to the assembled House of Representatives?

The SPEAKER. It was not a formal message. It was a communication.

Mr. HALL. I thank the Speaker.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

(By unanimous consent, Mr. McCULLOCH was granted permission to address the House for 5 minutes, and to revise and extend his remarks and include extraneous material.)

Mr. McCULLOCH. Mr. Speaker, it was my pleasure to attend in November 1965, the 24th semiannual session of the 29 member governments of the Council of ICEM—Intergovernmental Committee for European Migration—held in Geneva, Switzerland. The U.S. congressional delegation, of which I had the honor to be a member, was composed of the gentleman from New Jersey [Mr. RODINO], the gentleman from Colorado [Mr. ROGERS], the gentleman from Massachusetts [Mr. DONOHUE], the gentleman from Minnesota [Mr. MACGREGOR], and the Senator from Massachusetts [Mr. KENNEDY].

The needs for resettlement of some of the people of the world have materially changed in recent years but our Government and our citizens have continued to play a leading role in providing both material assistance and resettlement opportunities to refugees. In large part through special legislation well over a million refugees have been admitted to the United States of America since the end of World War II. I am proud, Mr. Speaker, of the leadership my country has provided for ICEM. I call to your recollection the part played by our late great colleague, Tad Walter, in conceiving and founding ICEM, and the contribution of our late great colleague, Chauncey Reed, in writing the constitution for this great organization.

In our changing times the problem of European refugees is vastly different from that which confronted us at the

end of World War II. The unsettled conditions of the world, the existence of governmental systems based upon the denial of human rights, the denial of equal opportunity and the refusal to respect the dignity of the individual, all of these bear eloquent testimony to the continued need for our united efforts to resolve the problems of refugees.

The current situation and the present trends in European migration were ably reviewed before the Council in Geneva by ICEM's Deputy Director, Walter M. Besterman, who served as our counsel for 19 years. The record he made in serving the Judiciary Committee is well known to you all. The contribution he is now making in his post at ICEM has received acclaim and recognition worldwide.

For the information of the House, Mr. Besterman's address follows:

I

Mr. Chairman, I have been requested by the Director to review briefly with the Council Document MC/736 which contains a report on our operations in two, usually referred to as classic, fields of operations, namely, national migration and refugee migration. As you will have noted, the document is divided into two parts: "Chapter 1, National Migration," and "Chapter 2, Refugee Migration." I shall refer first to national migration.

The results of our operations in 1965 reflect, in our opinion, the situation which exists in the migrant-sending countries, the countries of Western Europe. They do not reflect the situation as it exists in the migrant-receiving countries where requirements of national policy—that is the willingness, the economic considerations, but also the ever-present generosity—represent an attitude of open doors. To state it with more precision, there are many overseas countries willing to offer hospitality to Europeans desiring to migrate at this time, although the numbers of such Europeans are diminishing.

Nevertheless, in our daily operations we are faced with a flow of people who, even though benefiting from the prosperity of Europe of today, desire to seek new opportunities in new lands, hoping that life might be better there for themselves or for their children. It is the urge for betterment in faraway lands that probably goes back at least some 3,000 years: human beings will always be on the move. It is a demonstration of their vitality. They are entitled to express it and this community which comprises governments believing in freedom of movement is the expression of recognition of the legitimacy of this ever-present desire for a change.

In the national migration sector we have achieved or are about to achieve—we still have 1 month to go of this year—the targets set forth in 1964 when we first presented to this Council our estimates of movements. The deviation from the target will not exceed 10 percent—a tolerable discrepancy when you consider that we have to estimate not only the possibility of movements but also the will of the individual to move at least 12 to 18 months ahead of time.

The various programs and related statistical data are a part of the paper before you and there is probably no need, Mr. Chairman, for me to review the items separately. There is, however, one important point to be made. In presenting to you, ladies and gentlemen, the figures reflecting our operations we are, of course, speaking of quantity. But in the area of our efforts to supply the Latin American countries with the most desirable type of migrant, that is the highly skilled migrant, the statistics do not reflect our achievements. I would respectfully submit that they do not reflect the significance of

our operations, because in that particular field we are not dealing with quantity. We are dealing here in quality, and no statistician could report adequately on that particular aspect of our operations.

There is another aspect which weighs heavily on whatever we do in the field of national migration; it is the prosperity of Europe, the tight labor market for skilled, semi-skilled, and even unskilled workers. There are job vacancies in Europe far in excess of labor supply. That situation has created the phenomenon of intra-European migration in size unequalled in history. We have to agree, I believe, on certain terms before we proceed any further in assessing the role of overseas migration as compared to intra-European migration. The migrant seeking resettlement abroad seeks a new way of life, if not a new life. The intra-European migrant of today, with very few exceptions indeed, seeks to enhance his fortune for a few years and plans to return home. Well, whether he actually returns home, or moves to another foreign land, time alone will tell. Whether he finds satisfactory conditions in his home country upon return, particularly when compared to the conditions in which he lived temporarily, is again another story. Whether any country in Europe will impose the weight of a recession exclusively or even partially on the foreign workers, whether the sad story of the 1930's is at all likely to repeat itself and whether we might see again the trains in which foreign workers were shipped home, is one more of the question marks hanging over intra-European migration.

These and other questions are of considerable significance, economic and political, to Europe. No wonder the OECD has initiated a study in depth of the uniquely complicated phenomenon of intra-European migration.

Although it is conceded that efforts are made to afford the intra-European migratory worker virtually the same entitlements to social welfare protection as those enjoyed by the native worker, vast discrepancies exist in fact. Housing problems beset the intra-European migratory worker. The rather cruel rule "no house, no wife, no children" causes hardship due to separation of families and tends to produce mounting social problems. Acquisition of citizenship, the great symbol of achieved assimilation, is another facet of the unhappy situation in which many intra-European migrant workers find themselves. Reasonably expeditious naturalization, the rule of the countries offering permanent resettlement, is an exception in Europe, practiced in but very few countries.

These, Mr. Chairman, are only some of the highlights of the intra-European migration dilemma brought out recently by a renowned American scholar, Prof. C. P. Kindleberger, of the great MIT, the Massachusetts Institute of Technology, in a dispassionate, thorough analysis published in my country's leading political journal, *Foreign Affairs*. The danger to quote Professor Kindleberger as he sums it up, is "that the mass migrant of today will become a man without a country, one who has left one life and finds that he cannot stay where he is and cannot go home again. The problem of belonging," says Professor Kindleberger, "is difficult enough within one's own borders. Unless Europe achieves a social and political identity it may develop a problem of flying Mediterraneans, restless spirits with no home."

What the great Massachusetts economist is writing about, and what the OECD is concerned with, has not escaped ICEM's attention. We are aware of intra-European workers who, while still in the host country, approach our missions, the Immigration officers of our overseas member governments and the voluntary agencies, with requests for counsel, advice and assistance in obtaining documentation enabling overseas migration in

their desire to have the Gordian knot cut, rather than float between what has been abandoned as home and what has never become one. More and more of them just want to settle down, with their families, overseas, in a new abode.

Let me suggest, Mr. Chairman, that in analyzing our narrative and our statistics regarding national migration, it must be realized that many aspects of the current intra-European migration tend to increase ICEM's task in the sector of national migration overseas rather than to relieve us of it. I wish to inform the Council that ICEM's Director is aware of that situation. A recently constituted internal staff task force will attempt to establish ICEM's position in that regard so that we may be ready to respond to the wishes of the member governments whenever their interests would require our action.

Mr. Chairman, the primary purpose of chapter 2 of the report before you is to answer several questions frequently asked in the Subcommittee on Budget and Finance, in the Executive Committee and in this Council: Who are the refugees of today? Why do they become refugees? How many refugees are there?

I am most grateful to my good friend the distinguished representative of the United Nations High Commissioner for Refugees, Mr. Jamleson, for relieving me of about one-half of my task by having stated his high office's finding that the European refugees, contrary to certain unfounded beliefs, still exist, not in diminishing numbers, and still not only request but are most deserving of assistance.

In the paper before you there are set forth three conclusions reached from an assessment of the reasons causing the continuous appearance of European refugees.

The first stems from those political developments taking place since the end of World War II which have and are creating new sovereignties, new independent countries, based predominantly on religious and racial principles. I am speaking of former colonial possessions or former dependencies which have joined the family of free nations, have found recognition by other countries, and became members of the United Nations. In these countries there remains a considerable residue of persons of European ethnic origin who are the minorities, national or ethnic minorities, formerly the privileged ones, presently the underprivileged or, in plain words, the people who are not wanted there any more. There may be room for some differentiation as to whether they are subject to persecution or to pressure. In fact, it would be but a play on words. In reality they become refugees because they not only desire, but must, eventually, leave the places of their historical abode.

Simple arithmetic tends to indicate that this is a continuing problem. That conclusion is inescapable if you but count noses or heads and keep in mind that not all of them will be able to leave within a year, or 2 years, or 5.

Our second conclusion relates to the well-known group of people who are not in accord with and do not accept the rule of the regimes installed in Eastern Europe in the post-war period. Registering their dissatisfaction and opposition to the regimes which do not believe in and do not adhere to principles of freedom, to free choice of employment and movement, these refugees stream into Western Europe, into the countries of temporary asylum, seeking permanent resettlement.

The third conclusion reflects the history of the last 20 years, the history of the efforts made by UNRRA, and by IRO, and by this organization which made it possible for well over two million refugees to be resettled in many overseas countries and in many countries of Western Europe. Opportunities

exist now for their close relatives to join them. What these opportunities are to be attributed to is rather difficult to determine. It could be that certain governments of Eastern Europe have decided that it is better to let the people go for the simple reason that their departure would leave less mouths to feed, or would mean less communication between the refugees resettled in the free world and their relatives still enclosed in certain areas. Any other guess could be just as correct as these theories are. Nevertheless, the fact remains that these people now have the possibility to leave, and the long overdue and much desired family reunion could take place.

Thus, Mr. Chairman, in these three findings we have attempted to determine the motivations of the refugees and to answer the questions: Who are they, and why do they become refugees? Their numbers are reflected on page 8 of the document. Having gone back to the world refugee year, 1960, when the old static camps of unfortunate memory had begun to disappear and were being replaced by just a few camps presently in operation, camps in the nature of transit centers characterized by a fortunately short stay of refugees, we find that the level of movements remains practically stable. It differs from year to year by not more than 10 percent. Here then is the indication of both the continuity and the stability of the flow as another part of our assessment.

Having looked at the motives and the numbers of refugees, we have attempted to refine the categorization of refugees as first presented to the Council a year ago. We have found that it is possible to categorize the refugees for operational and budgetary purposes regardless of geographical areas, regardless of their location, as these considerations have, in our opinion, no bearing on either the legitimacy of their claim to refugee status or their eligibility for assistance as refugees. We have now based our categorization on the legal status of the refugees. In the proposed category No. 1 we place the refugee who, having found himself in an area of asylum, requires our services in terms of counseling, assistance in obtaining immigration documentation and expeditious movement to resettlement. In category No. 2 we propose to place the refugee who leaves the country of his residence with a visa to final destination and requires our assistance in transit only, in arranging his expeditious onward transportation. Then comes our new category No. 3 where we propose to assign displaced Europeans for many years referred to as "ethnic refugees." This is the group I tried to characterize in the terms of ethnic or religious minorities who, for a variety of reasons, are the victims of oppressive measures in the areas of their historical abode.

The last categories, No. 4 and No. 5, the first relating to Cuban refugees departing from Spain mostly to the United States, and the latter including solely the European refugees leaving China through Hong Kong, could also be placed in category No. 1 as they definitely are asylum seekers. For reasons of convenience rather than anything else these categories were separated. This administration believes that the problem of European refugees transiting through Hong Kong is nearing its final solution. It may continue for another 6 or 8 months, but probably would not extend beyond 1966. The problem of the Cuban refugees who, in a roundabout way, attempt to reach the United States via Spain may or may not be close to a solution, but it represents an entirely separate program. No ICEM funds are used for this program; the funds are derived from other sources; we offer transport services only, on a fully reimbursable basis. These are the reasons for treating separately categories No. 4 and No. 5.

It is the Director's hope, and we are glad to have obtained last week the endorsement

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
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OFFICE OF BUDGET AND FINANCE
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NOT TO BE QUOTED OR CITED)

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HIGHLIGHTS: Senate passed community development districts bill. House committees reported agricultural appropriation and participation sales bills. Sen. Moss requested forest roads-trails increase. Sen. Proxmire defended farmers and commended school-milk increase. Sen. Mondale inserted Grange letter defending Secretary Freeman. Rep. Albert reported state of Nation's agriculture good. House subcommittee voted to report diverted acreage allotment bill.

SENATE

1. **COMMUNITY DEVELOPMENT DISTRICTS.** Passed, 43-21, with amendments S. 2934, authorizing grants for comprehensive planning for public services and development in community development districts approved by the Secretary of Agriculture. Agreed to a Lausche amendment to limit HUD grants to the present authorization. Agreed to an Ellender amendment to strike out the appropriation authorization. pp. 8474-88

2. **FOREST ROADS.** Sen. Moss offered and discussed an amendment to S. 3155, the road authorization bill, to increase forest roads and trails from \$85 million

to \$150 million for the fiscal year 1968 and from \$110 million to \$150 million for the fiscal year 1969. p. 8449

3. FARM PROGRAM; SCHOOL MILK. Sen. Proxmire defended farmers, inserted an article on this subject, and praised the Whitten subcommittee for increasing the school milk program. pp. 8455-7

Sen. Mondale commended recent accomplishments in increasing farm income and inserted a letter from the National Grange defending Secretary Freeman. pp. 8467-9

4. APPROPRIATIONS. On Apr. 22 an appropriations subcommittee marked up and approved for full committee consideration H. R. 14215, the Interior and related agencies appropriation bill. p. D342

The Appropriations Committee ordered favorably reported with amendments H. R. 14012, second supplemental appropriation bill, which may be debated Apr. 27. p. D342

5. ADJOURNED until Wed., Apr. 27. p. 8491

HOUSE

6. AGRICULTURAL APPROPRIATION BILL, 1967. On April 22, during adjournment, the Appropriations Committee reported this bill, H. R. 14596 (H. Rept. 1446) (p. 8439). Attached to this Digest is a copy of the committee report, which includes a summary table reflecting committee action on the bill.

7. LOANS. The Banking and Currency Committee reported with amendments H. R. 14544, the proposed Participation Sales Act of 1966 (H. Rept. 1448), and S. 2499, to ~~amend the Small Business Act to authorize issuance and sale of participation interests based on certain loan pools held by the Small Business Administration (H. Rept. 1447).~~ p. 8439

Rep. Talcott stated the participation sales bill is being "rammed through the committee and the Congress before even Members of Congress can understand it or evaluate the consequences." pp. 8389-90

8. FOREIGN AID. Passed without amendment H. R. 12617, to increase from \$12 million to \$25 million the amount authorized to be appropriated in any fiscal year for obligation and expenditure in accordance with programs approved by the President for certain activities within the Ryukyu Islands. pp. 8379-86

9. ACREAGE ALLOTMENT. A subcommittee of the Agriculture Committee approved for full committee action H. R. 13057, amended, to amend the provisions of law relating to the planting of crops on acreage diverted under the cotton, wheat, and feed grains program. p. D344

10. INFLATION. Rep. Pelly spoke in favor of "a modest reduction in Government non-defense expenditures" to curb inflation rather than an income tax increase and urged such consideration on pending appropriation bills. p. 8378

11. FARM PROGRAM. Rep. Albert stated that the state of our Nation's agriculture is good and inserted articles defending the President and Secretary Freeman against accusations of placing the blame for "high food prices on farmers." pp. 8396-7

Union Calendar No. 629

89TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } No. 1448

SALE OF PARTICIPATIONS IN GOVERNMENT AGENCY LOAN POOLS

APRIL 25, 1966.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

Mr. PATMAN, from the Committee on Banking and Currency,
submitted the following

R E P O R T

together with

MINORITY VIEWS

[To accompany H.R. 14544]

The Committee on Banking and Currency, to whom was referred the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are shown in the reported bill.

PURPOSE OF THE BILL

H.R. 14544, as amended by the committee, is designed to provide an efficient and orderly method of liquidating financial assets held by Federal credit agencies and to carry forward the objective of substituting private for public credit in funding the loan programs. It would accomplish this by enabling these agencies, with the approval of the Congress, to enter into trust agreements with the Federal National Mortgage Association whereby FNMA would sell participation certificates based on a pool or pools of Federal credit agency loans.

Background of Legislation

H.R. 14544 carries forward and makes more effective a public policy of long standing of encouraging maximum reliance upon private

financial institutions to meet the credit needs of the economic system. This has been done in the past through three major approaches:

(1) By chartering, supervising, and insuring in whole or in part the deposit accounts of 14,000 banks and 4,500 savings and loan associations which provide much of the Nation's credit requirements.

(2) By insuring or guaranteeing a substantial volume of loans made by private lenders—currently almost \$100 billion.

(3) By encouraging private lenders to purchase or refinance direct loans previously made by Government lending agencies and now included in the present \$33 billion portfolio of such agencies.

The last of these three methods, sale of direct Government loans, has had only limited success. The Government loan portfolio has continued to increase year by year.

To provide a more efficient method of stimulating private investment in Government loans, the Export-Import Bank since 1962, and the Federal National Mortgage Association (as trustee on behalf of its own and VA loan programs) since 1964, have been pooling blocks of loans owned by them, and selling guaranteed certificates of participation of such loan pools. In the 4-year period over \$3.3 billion of such certificates have been successfully sold.

In January 1965 budget message, the President recommended that the Small Business Administration also be authorized to pool and sell participation certificates in its loans through a trust administered by the Federal National Mortgage Association. Legislation to provide such authority, S. 2499, has been approved by the Senate, and has been favorably reported by your Banking and Currency Committee.

In his January 1966 budget message, and in his recent letter to the Speaker, the President has proposed that this proven method of participation sales be made available upon a governmentwide basis, thus increasing substantially the potential private investment in loans initially made by Government lending agencies.

General Statement

Even with these major efforts to draw on private credit, the volume of direct Federal loans outstanding has increased in recent years. It was \$25.1 billion on June 30, 1961, and \$33.1 billion on June 30, 1965. The estimated level for June 30, 1966, is \$33.3 billion assuming completion of the sales indicated in the latest budget document. Under the proposed program of asset sales, the volume of direct Federal loans outstanding would decline to \$31.5 billion on June 30, 1967.

H.R. 14544 would broaden and make available on a Governmentwide basis authority for the sale of participations in pools of financial assets now owned by Federal credit agencies. This would be accomplished by revising the authority provided in 1964 under which the Federal National Mortgage Association as trustee sells certificates of participation in pools of assets set aside by the Veterans' Administration and by the special assistance functions and the management and liquidating program of FNMA, and by making related changes

in statutes of other agencies to permit such agencies to make use of participation sales methods.

The broadened program of asset sales in fiscal year 1967 is expected to include sales of participations in assets of the Farmers Home Administration, the Office of Education, the college housing program, the public facility loan program and the Small Business Administration.

The centralization of the participation sales activity in FNMA, by building on an already successful body of market experience, will help to assure the orderly and most economical sale of this paper.

It will also assure the effective coordination of these offerings, not only with one another but also with the Treasury's own debt management operations. The alternative of having each of the agencies involved conduct its own sales operation would greatly complicate the coordination problem, would produce a wasteful duplication of efforts, and would result in a less effective and more costly operation for the Federal Government. Under the guidance of FNMA, the asset sales undertaken for newer programs, less well known to the market, would gain the benefit of seasoning and experience that has been built up already through the FNMA operations.

Another advantage of the pool arrangements goes back to the fact that a number of sound Federal loans carry interest rates significantly below levels at which private lenders would be willing to invest their funds in the present market. These rates, in many cases, have been written into the legislation setting up the programs. While the relatively low rates do not make the loans any less sound, these rates do mean that such loans could be sold directly to private investors only at substantial discounts.

H.R. 14544 would make it possible to include such loans in marketable pools by providing, in effect, means for the agency owning the loans to make supplementary payments to the trustee of the pool to cover the interest insufficiency. The supplementary payments would be subject to the effective approval of the Appropriations Committees since these committees would authorize the amounts of any issues of participations. Section 2(b)(4) of the bill specifically provides that the amount of any participation issues be within aggregate principal amounts authorized in advance in appropriation acts.

A further advantage of the pool arrangements is in their ability to draw into the financing of public credit programs practically all sectors of the capital markets. Many segments of the market cannot deal in individual mortgages. Other sectors are not able to purchase individual business or college housing loans. But almost all segments of the market are potential investors in pool certificates. Two consequences flow from this: First, the market for a number of particular types of credit instruments is substantially broadened; and second, sales of participations do not disrupt particular segments of the capital markets, as might be the case if the mortgages or loans were sold individually.

It has been pointed out on some occasions that the sale of Federal credit program financial assets, whether through participation certificates or other means, is more expensive than financing through the direct issue of Treasury obligations. This is true, although the cost difference has proved to be relatively minor. For example, FNMA participation certificates have been sold at rates roughly one-fourth

of 1 percent above Treasury issues of comparable maturity; and it is entirely possible that the margin may diminish as the market gains experience with these high-quality credits.

Moreover, carried to its logical conclusion, this argument would have the Treasury financing directly all of the Federal insurance and guarantee programs, since it can obviously do this more cheaply than the private market. Other types of credit, now handled entirely in the private market, could also be financed more "cheaply" by the U.S. Treasury. Your committee wishes to retain, however, the principle that the allocation of credit for essentially private purposes should be a function of the private market. By the same token, this position does not mean to imply that existing or new social and/or economic programs requiring Federal Government sponsorship and/or direct financing should be curtailed or ceased.

Section-by-Section Analysis of H.R. 14544

Section 1. Short title

The bill would be cited as the "Participation Sales Act of 1966."

Section 2. Amendments to section 302(c) of the Federal National Mortgage Association Charter Act

Subsection (a) would amend existing section 302(c) of the Federal National Mortgage Association Charter Act to accommodate the provisions of new paragraphs (2), (3), and (4). The first and second amendments are technical. The purpose of the third amendment is to qualify for inclusion in participation trusts, securities held by various Government agencies even though they may not be within the technical definition of obligations. The fourth amendment would exempt participation certificates issued pursuant to this act from all regulation by the Securities and Exchange Commission. The fifth amendment would repeal the existing authority for appropriations to offset differentials arising from the issuance of participations based on below-market interest rate mortgages insured under section 221(d)(3) of the National Housing Act; this repeal is appropriate because of substitute arrangements provided in subsection (b) of section 2 of the bill.

Subsection (b) would add new paragraphs (2), (3), and (4), to section 302(c) of the FNMA Charter Act. New paragraph (2) would authorize the head of any executive department, agency, or instrumentality of the United States to set aside a part or all of any financial assets held by him, subject them to trust or trusts, and require him to guarantee to the trustee the timely payment of principal and interest on the assets so set aside. Under the trust instrument FNMA would act as trustee, and title to the obligations so set aside would be deemed to have passed to FNMA in trust. The custody, control, and administration of the obligations, however, would remain in the trustor, subject to transfer to the trustee in event of default in the payment of principal and interest of the related participation certificates issued by the trustee. The trust instrument would require the trustee to pay promptly to the trustor the full net proceeds of any sale of participations, and require the trustor to treat the proceeds as otherwise provided by the law for direct sales or repayments of such obligations. To facilitate liquidation of assets, because of prepayments or defaults and to release assets for direct sale, any

trustor would be authorized, through the facilities of the trustee, to acquire outstanding participations to the extent of his responsibility to the trustee. Any trustor would also be authorized to pay his proper share of the costs and expenses incurred by the trustee. In contrast to the approach of the 1964 legislation on this subject, the trust or trusts to be created under this legislation, as well as the trusts created under the 1964 legislation from now on, are to be categorized for tax purposes as associations taxable as corporations, and not as true trusts. However, a special exemption is provided so that their interest income will not be subject to tax. Since these trusts are associations taxable as corporations and exempt from tax, any income received by participation holders will be fully taxable. Because the trusts are not themselves taxable, the dividends received by corporate participation purchasers will not be eligible under the Internal Revenue Code for the 85-percent dividends received deduction, or, in the case of individuals, the \$100 dividend exclusion.

New paragraph (3) would authorize any trustor to fulfill his guarantee of the timely payment of obligations subjected to a trust by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

New paragraph (4) would require that before any given amount of beneficial interests could be issued for the account of any trustor (that is, before participations could be issued which would provide the given amount of funds for the given agency) approval for the issuance of that amount for the account of that agency would have to be granted in an appropriation act.

New paragraph (5) would expressly authorize FNMA as trustee to issue and sell participations even if the aggregate receipts from obligations subject to the related trust are insufficient to permit the payment by the trustee of all interest or principal on the participations. The authorization pursuant to paragraph (4) would under the provisions of paragraph (5) create an appropriation account on the books of the Treasury to pay any difference between the receipts of the trustor (the agency) from the obligations in the pool and the amount chargeable to that agency which the trustee (FNMA) would be obligated to pay to the holders of the beneficial interests or participations. The trustor would be required to make timely payments to the trustee from such appropriations. Thus, purchasers of participations would be assured of timely payments of principal and interest without further action by the Congress.

Section 3. Reductions in new obligational authority

Subsection (a) amends section 305(c) of the FNMA Charter Act by reducing by \$450 million the aggregate potential authority of FNMA to purchase mortgages under its special assistance functions.

Subsection (b) would amend section 401(d) of the Housing Act of 1950 by reducing by \$300 million the borrowing authority of the college housing loan program. Both reductions are made possible by increased sales of participation certificates in existing loans.

Section 3 of the bill would have the effect of repealing provisions of law enacted in 1965 under which, on July 1, 1966, (1) FNMA's dollar authority to own mortgages under its special assistance functions would be increased by \$450 million, and (2) the authority of the Secretary of Housing and Urban Development to borrow from the Treasury

for college housing loans would be increased by \$300 million. This avoidance of increases of dollar authorities aggregating \$750 million would be made possible by the reported bill. Your Banking and Currency Committee has been assured that existing plans contemplate the issuance and sale of participations in needed compensating amounts during the fiscal year commencing July 1, 1966.

Specifically, as regards college housing loans, subsection (b) of section 3 of H.R. 14544 would amend section 401(d) of the Housing Act of 1950, as amended (12 U.S.C. 1749), by reducing by \$300 million the borrowing authority of the college housing loan program.

The Housing Act of 1950 authorizes direct loans to higher educational institutions to assist them in providing housing and related facilities for students and faculty and to hospitals for housing facilities for student nurses and interns.

The Treasury borrowing authorization which funds the program is \$3,175 million and will increase by \$300 million to \$3,475 million in fiscal 1967 under current statute. The proposed participation sales of \$820 million of college housing loans in fiscal 1967 permits canceling the \$300 million of new obligational authority, which otherwise would become available in 1967, without interfering with program activity which is projected at \$300 million of net loan reservations in fiscal 1967. The net effect of the participation sale will be to increase the obligational authority by \$801 million after adjustment for reductions in loan repayment receipts and administrative expenses of FNMA.

Section 4. Office of Education revolving loan fund provisions

Subsection (a) of this section would amend section 303(c) of the Higher Education Facilities Act of 1963 to provide that appropriations for making academic facility loans would now be payable into the fund to be established by subsection (b) of this section.

Subsection (b) would add a new section 305 to the Higher Education Facilities Act of 1963 establishing a separate revolving fund for higher education academic facilities loans, available without fiscal year limitation. The total of new loans made from the fund in any fiscal year would be subject to limitations specified in appropriation acts. All appropriations available for academic facilities loans and all receipts from operations and from participation sales would be deposited in the fund. All loans, expenses, and payments would be paid from the fund, including expenses and payments to the Federal National Mortgage Association in connection with the sale of participations. The Commissioner would be required to pay from the fund into the Treasury interest on the net amount of appropriations used by the fund.

Section 5. Farmers Home Administration direct loan account provisions

Section 5 would amend section 338(c) of the Consolidated Farmers Home Administration Act of 1961 to transfer to the direct loan account watershed protection and flood prevention loans, rural renewal loans, and resource conservation and development loans not now financed through revolving funds. The intent is to include among the loans eligible for pooling under section 2 all loans made by the Farmers Home Administration (including not only those in the direct loan account, but also those in the emergency credit revolving fund, rural housing direct loan account, agricultural credit insurance fund and the rural housing insurance fund).

Section 6. Preservation of existing Veterans' Administration authority

Section 6 would make clear that nothing contained in this bill should be construed to repeal or modify the existing authority of the Administrator of Veterans' Affairs to enter into trust arrangements comparable to those contemplated by this bill. The intent of this section would be to authorize the Administrator of Veterans' Affairs to enter into trust arrangements either under the provisions of this bill or under the provisions of section 1820(e) of title 38 United States Code.

Section 7. Investment by credit unions

Section 7 would authorize Federal credit unions to invest their funds in the type of participations or beneficial interests authorized under the bill to be issued by FNAM.

Section 8. Study of direct loan programs

Section 8 would require the Secretary of the Treasury to study the advantages and disadvantages of direct loan programs compared to insured or guaranteed programs and to report to the Congress. Necessary appropriations are authorized.

CHANGES IN TEXT OF EXISTING STATUTES

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, the text of existing Federal statutes or parts thereof which the bill, as reported, would amend or repeal is printed below, with the proposed changes shown (a) by enclosing in black brackets material to be omitted, (b) by printing the new matter in italic type, and (c) by printing in roman type those provisions in which no change is to be made.

Sections 302(c) and 305(c) of the Federal National Mortgage Association Charter Act

TITLE III—FEDERAL NATIONAL MORTGAGE ASSOCIATION

* * * * *

CREATION OF ASSOCIATION

SEC. 302. (a) * * *

* * * * *

(c) (1) Notwithstanding any other provision of this Act or of any other law, the Association is authorized under section 306 to create, accept, execute, and otherwise administer in all respects such trusts, receiverships, conservatorships, liquidating or other agencies, or other fiduciary and representative undertakings and activities, *hereinafter in this subsection called "trusts"*, as might be appropriate for financing purposes; and in relation thereto the Association may acquire, hold and manage, dispose of, and otherwise deal in any obligations [offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency] *and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called "obligations," in which the United States or any executive department, agency, or instrumentality thereof may have a financial interest.* The Association may join in any such undertakings and activities notwithstanding that it is also serving in a fiduciary or representative capacity; and is authorized, consistent with section 307, to guarantee any participations or other instruments, whether evidence of property rights or debt, issued for such financing purposes. [Any participations or other instruments so guaranteed shall to the same extent as securities issued or guaranteed by the United States or its instrumentalities be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission.] *Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to*

be exempt securities within the meaning of laws administered by the Securities and Exchange Commission. [If there shall be included within one or more of the trusts or other agencies created pursuant to the authority of this subsection any mortgages bearing a below-market interest rate and insured under section 221(d) (3) after the date of the enactment of the Housing and Urban Development Act of 1965, there are authorized to be appropriated from time to time such amounts as may be necessary to reimburse the Association for the amount of the differential (including interest, other costs, and a fair proportion of administrative expense) between (1) the total outlay with respect to outstanding participations or other instruments which, at the time of issuance, were predicated upon or otherwise related to such below-market interest rate mortgages, and (2) the total receipts from such mortgages.] The amounts of any mortgages and other obligations acquired by the Association under section 306, pursuant to this subsection, shall not be included in the total amounts set forth in section 306(c).

(2) Subject to the limitations provided in paragraph (4) of this subsection, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the "trustor", is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title of such obligations shall be deemed to have passed to the Association in trust. The trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available

to him for the general purposes or programs to which the obligations subjected to the trust are related.

(3) When any trustor guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes of programs to which the obligations subjected to the trust are related.

(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available until used.

(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). Whenever the issuance of an aggregate principal amount is authorized pursuant to paragraph (4) of this subsection, such an authorization in an appropriation act shall establish on the books of the Treasury as appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument.

SPECIAL ASSISTANCE FUNCTIONS

SEC. 305. (a) * * *

* * * * *

(c) The total amount of purchases and commitments authorized by the President pursuant to subsection (a) of this section shall not exceed \$1,700,000,000 outstanding at any one time, which limit shall be increased by \$100,000,000 on the date of the enactment of the Housing and Urban Development Act of 1965, [by \$450,000,000 on July 1, 1966,] by \$550,000,000 on July 1, 1967, and by \$525,000,000 on July 1, 1968.

Section 401(d) of the Housing Act of 1950

(d) To obtain funds for loans under subsection (a) of this section, the Administrator may issue and have outstanding at any one time notes and obligations for purchase by the Secretary of the Treasury in an amount not to exceed \$1,675,000,000, which amount shall be increased by \$300,000,000 on July 1 in each of the years 1961 through [1968:] 1965, and 1967 and 1968: *Provided*, That the amount outstanding for other educational facilities, as defined herein, shall not exceed \$175,000,000, which limit shall be increased by \$30,000,000 on July 1 in each of the years 1961 through 1968: *Provided further*, That the amount outstanding for hospitals, referred to in clause (2) of section 404 (b) of this title, shall not exceed \$100,000,000, which limit shall be increased by \$30,000,000 on July 1 in each of the years 1961 through 1968.

Title III of the Higher Education Facilities Act of 1963

TITLE III—LOANS FOR CONSTRUCTION OF ACADEMIC FACILITIES

LENDING AUTHORITY

SEC. 301. The Commissioner may, in accordance with the provisions of this title, make loans to institutions of higher education or to higher education building agencies for construction of academic facilities.

LOAN LIMIT FOR ANY STATE

SEC. 302. Not more than 12½ per centum of the funds provided for in this title in the form of loans shall be used for loans to institutions of higher education or higher education building agencies within any one State.

ELIGIBILITY CONDITIONS, AMOUNTS, AND TERMS OF LOANS

SEC. 303. (a) No loan pursuant to this title shall be made unless the Commissioner finds (1) that not less than one-fourth of the development cost of the facility will be financed from non-Federal sources, (2) that the applicant is unable to secure the amount of such loan from other sources upon terms and conditions equally as favorable as the terms and conditions applicable to loans under this title, and (3) that the construction will be undertaken in an economical manner and that it will not be of elaborate or extravagant design or materials.

(b) A loan pursuant to this title shall be secured in such manner, and shall be repaid within such period not exceeding fifty years, as may be determined by the Commissioner; and shall bear interest at (1) a rate determined by the Commissioner which shall not be less than a per annum rate that is one-quarter of 1 percentage point above the average annual interest rate on all interest-bearing obligations of the United States forming a part of the public debt as computed at the end of the preceding fiscal year, adjusted to the nearest one-eighth of 1 per centum, or (2) the rate of 3 per centum per annum, whichever is the lesser.

(c) The Commissioner shall, during the fiscal year ending June 30, 1964, and each of the four succeeding fiscal years, make loans to institutions of higher education for the construction of academic facilities in accordance with the provisions of this title. [For the purpose of making loans under this title] *For the purpose of making payments into the fund established under section 305*, there is hereby authorized to be appropriated the sum of \$120,000,000 for the fiscal year ending June 30, 1964, and each of the two succeeding fiscal years; but for the fiscal year ending June 30, 1967, and the succeeding fiscal year, only such sums may be appropriated as the Congress may hereafter authorize by law. In addition to the sums authorized to be appropriated under the preceding sentence, there is hereby authorized to be appropriated for the fiscal year ending June 30, 1965, and the succeeding fiscal year, for making such loans the difference (if any) between the sums authorized to be appropriated under the preceding sentence for preceding fiscal years and the aggregate of the sums which

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were appropriated for such preceding years under such sentence. Sums appropriated pursuant to this subsection for any fiscal year shall remain available for loans under this title until the end of the next succeeding fiscal year.

GENERAL PROVISIONS FOR LOAN PROGRAM

SEC. 304. (a) Such financial transactions of the Commissioner as the making of loans and vouchers approved by the Commissioner in connection with such financial transactions, except with respect to administrative expenses, shall be final and conclusive on all officers of the Government.

(b) The Commissioner is authorized (1) to prescribe a schedule of fees which, in his judgment, would be adequate in the aggregate to cover necessary expenses of making inspections (including audits) and providing representatives at the site of projects in connection with loans under this title, and (2) to condition the making of such loans on agreement by the applicant to pay such fees. For the purpose of providing such services, the Commissioner may, as authorized by section 402(b), utilize any agency, and such agency may accept reimbursement or payment for such services from such applicant or from the Commissioner, and shall, if a Federal agency, credit such amounts to the appropriation or fund against which expenditures by such agency for such services have been charged.

(c) In the performance of, and with respect to, the functions, powers, and duties vested in him by this title, the Commissioner may—

(1) prescribe such rules and regulations as may be necessary to carry out the purposes of this title;

(2) sue and be sued in any court of record of a State having general jurisdiction or in any district court of the United States, and such district courts shall have jurisdiction of civil actions arising under this title without regard to the amount in controversy, and any action instituted under this subsection by or against the Commissioner shall survive notwithstanding any change in the person occupying the office of Commissioner or any vacancy in such office; but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Commissioner or property under his control, and nothing herein shall be construed to except litigation arising out of activities under this title from the application of sections 507(b) and 2679 of title 28 of the United States Code and of section 367 of the Revised Statutes (5 U.S.C. 316);

(3) foreclose on any property or commence any action to protect or enforce any right conferred upon him by any law, contract, or other agreement, and bid for and purchase at any foreclosure or any other sale any property in connection with which he has made a loan pursuant to this title; and, in the event of any such acquisition (and notwithstanding any other provisions of law relating to the acquisition, handling, or disposal of real property by the United States), complete, administer, remodel and convert, dispose of, lease, and otherwise deal with such property: *Provided*, That any such acquisition of real property shall not deprive any State or political subdivision thereof of its civil or criminal jurisdiction in and over such property or impair the

civil rights under the State or local laws of the inhabitants on such property;

(4) sell or exchange at public or private sale, or lease, real or personal property, and sell or exchange any securities or obligations upon such terms as he may fix;

(5) subject to the specific limitations in this title, consent to the modification, with respect to the rate of interest, time of payment of any installment of principal or interest, security, or any other term of any contract or agreement to which he is a party or which has been transferred to him pursuant to this section; and

(6) include in any contract or instrument made pursuant to this title such other covenants, conditions, or provisions (including provisions designed to assure against use of the facility constructed, with the aid of a loan under this title, for purposes described in section 401(a)(2)) as he may deem necessary to assure that the purposes of this title will be achieved.

REVOLVING LOAN FUND

SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called "the fund") which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts.

(b) (1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury.

Section 338(c) of the Consolidated Farmers Home Administration Act of 1961

(c) The appropriation for loans made under the authority of subsection (a) and funds obtained in accordance with subsection (b) of this section, and the unexpended balances of any funds made available for loans under the item "Farmers Home Administration" in the Department of Agriculture Appropriation Acts current on the date of enactment of this title, shall be merged into a single account known as the "Farmers Home Administration direct loan account", hereafter in this section called the "direct loan account". All claims, notes, mortgages, property, including those now held by the Secretary on behalf of the Secretary of the Treasury, and all collections therefrom, made or held under the direct loan provisions of (1) titles I, II, and IV of the Bankhead-Jones Farm Tenant Act, as amended; (2) the Farmers Home Administration Act of 1946, as amended, except the assets of the rural rehabilitation corporations; (3) the Act of August 28, 1937 (50 Stat. 869), as amended; (4) the item "Loans to Farmers—1948 Flood Damage" in the Act of June 25, 1948 (62 Stat. 1038); (5) the item "Loans to Farmers (Property Damage)" in the Act of May 24, 1949 (63 Stat. 82); (6) the Act of September 6, 1950 (64 Stat. 769); (7) the Act of July 11, 1956 (70 Stat. 525); [and] (8) *section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a)*; (9) *section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011)*; and (10) under this title shall be held for and deposited in said account.

The notes of the Secretary issued to the Secretary of the Treasury under said Acts or under this title and all other liabilities against the appropriations or assets in the direct loan account shall be liabilities of said account, and all other obligations against such appropriations or assets shall be obligations of said account. Moneys in the direct loan account shall also be available for interest and principal repayments on notes issued by the Secretary to the Secretary of the Treasury. Otherwise, the balances in said account shall remain available to the Secretary for direct loans under subtitles A and B of this title, *section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended*, and for advances in connection therewith, not to exceed any existing appropriation or authorization limitations and in such further amounts as the Congress from time to time determines in appropriation Acts. The amounts so authorized for loans and advances shall remain available until expended. Subject to the foregoing limitations, the use of collections deposited in the account may be authorized by the Congress in lieu or partially in lieu of authorizing the issuing of additional notes by the Secretary to the Secretary of the Treasury, and the account shall be budgeted on a net expenditure basis.

Section 8 of the Federal Credit Union Act (12 U.S.C. 1757)

POWERS

SEC. 8. A Federal credit union shall have succession in its corporate name during its existence and shall have power—

- (1) to make contracts;
- (2) to sue and be sued;
- (3) to adopt and use a common seal and alter the same at pleasure;
- (4) to purchase, hold, and dispose of property necessary or incidental to its operations;
- (5) to make loans with maturities not exceeding five years to its members for provident or productive purposes upon such terms and conditions as this Act and its bylaws provide and as the credit committee or a loan officer may approve, at rates of interest not exceeding 1 per centum per month on unpaid balances, inclusive of all charges incident to making the loan; except that no loans to a director or member of the supervisory or credit committee shall exceed the amount of his holdings in the Federal credit union as represented by shares thereof plus the total unencumbered and unpledged shareholdings in the Federal credit union of any member pledged as security for the obligation of such director or committee member. No director or member of the supervisory or credit committee shall endorse for borrowers. A borrower may repay his loan, prior to maturity, in whole or in part on any business day. The taking, receiving, reserving, or charging of a rate of interest greater than is allowed by this paragraph, when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person by whom it has been paid, or his legal representatives, may recover back from the credit union taking or receiving the same, in an action in the nature of an action of debt, the entire amount of interest paid; but such action must be commenced within two years from the time the usurious collection was made. Loans shall be paid or amortized in accordance with rules and regulations prescribed by the Director after taking into account the needs or conditions of the borrowers, the amounts and duration of the loans, the interests of the members and the credit unions, and such other factors as the Director deems relevant, but such rules and regulations shall not require payments more frequently than annually;
- (6) to receive from its members payments on shares;
- (7) to invest its funds (A) in loans exclusively to members; (B) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; [or] (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit

banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Government corporation; or *in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;*

(8) to make deposits in national banks and in State banks, trust companies, and mutual savings banks operating in accordance with the laws of the State in which the Federal credit union does business;

(9) to borrow, in accordance with such rules and regulations as may be prescribed by the Director, from any source, in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus: *Provided*, That any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital;

(10) to levy late charges, in accordance with the bylaws, for failure of members to meet promptly their obligations to the Federal credit union;

(11) to impress and enforce a lien upon the shares and dividends of any member, to the extent of any loan made to him and any dues or charges payable by him;

(12) in accordance with rules and regulations prescribed by the Director, to sell to members negotiable checks (including travelers checks) and money orders, and to cash checks and money orders for members, for a fee which does not exceed the direct and indirect costs incident to providing such service; and

(13) to exercise such incidental powers as shall be necessary or requisite to enable it to carry on effectively the business for which it is incorporated.

MINORITY VIEWS

Introduction

These minority views are addressed to those who express alarm over the declining role of Congress, yet willingly would vote for perhaps the most far-reaching legislation of the 89th Congress under a strict time limit imposed by the White House and the Postmaster General.

These views are addressed to those who cherish independent judgment, yet close their ears to all but those in the executive department.

These views are for those who may wonder why a committee of the House of Representatives must report to the House after 3 hours of public testimony a bill whose gestation period in the Bureau of the Budget was at least 3—perhaps as long as 6 months.

These views will try to express the views of those of our citizens and affected industries who were refused access to the witness table by a rigid, uncompromising majority.

These views are for those who defend the right of an accused to adequate defense counsel in court, but who refuse the right of a committee minority to bring forward its witnesses.

These views are for those who snicker at the shallow success of the legislative maxim which states, "When you've got a bad piece of merchandise, wrap it up before anyone can get a good look at it."

These views are for those who express concern over the rising threat of inflation, but would vote for a plan that could remove for all time the fiscal restraint that normally accompanies big budgetary deficits by concealing billions in increased Federal spending outside of the budget.

These views are for those who rant and rave at higher interest costs, yet willingly would raise billions by a far more costly route than Treasury borrowings.

These views are for future generations of Americans and for Members of future Congresses as a reminder of the ways of the "fabulous 89th," when the Congress ceased to be an independent branch of our Government.

These views especially are for those who refuse to read them, for the human mind that is closed to all elements of dissent is to be pitied.

Public Credit Is Not Replaced With Private Credit

The Federal National Mortgage Association (FNMA) will sell these participations for the account of other Government agencies under its management and liquidating function. The FNMA Charter Act, under section 307, specifically provides that all the benefits and burdens incident to the administration of the management and liquidating function "shall inure solely to the Secretary of Treasury."

FNMA is just as much a part of the Federal Government as is the Treasury Department. Each of them finance in the same private capital market.

It is pure fiction that if FNMA does the financing in place of the Treasury that somehow public credit has been replaced by private credit.

Assets Are Not Sold—They Are Only Refinanced

This program is supposed to be a "sale of assets" program. In place of outright sales of individual assets, it is claimed that a pool of Government-held financial assets or loans will be sold through selling beneficial interests or participations therein.

The participation "sale" is fiction. Under a sale, title passes, the purchaser acquires possession, the purchaser assumes the burdens of servicing the loan acquired, and he also assumes any risks of default.

This does *not* happen under the participation sale device. The purchaser of the participation does *not* acquire title to the pooled asset. He does *not* even acquire a pro rata interest in the assets pooled. All he acquires is the right to have his investment repaid with interest at the rate stated in the participation certificate. The agency pooling the loans retains the right to any excess payments that may be received in the trust on account of principal or interest from the loans pooled. The agency pooling the loans retains possession of the assets. The agency pooling the loans continues to bear the responsibility and burden of servicing the loans. The agency pooling the loans remains exposed to the risks of default.

In many cases, participations will be sold with a maturity far less than that of the loans pooled. In other words, repeated sales of the loans pooled will be necessary before the pooled loans finally mature and are paid off.

The participation sales device accomplishes a "sale" by legislative definition only. It stretches credulity to consider it as a bonafide sale of an asset.

What really happens through the participation device is that pooled assets are *not* sold, they are merely refinanced in a more costly way because FNMA *cannot* borrow as cheaply as the U.S. Treasury.

As if to underscore the fact that no actual sale of assets takes place, Under Secretary of the Treasury Barr, during the hearings, had an exchange with Congressman Clawson as follows:

Mr. CLAWSON. Now, I would like to know at this 'point about the ownership of this instrument and is there actually a passing of title to the private investor in the field?

Mr. BARR. Title does not pass to the private investor. The beneficial interest.

Mr. CLAWSON. What is the sale concept?

Mr. BARR. He is purchasing a beneficial interest in a pool of assets;

Mr. CLAWSON. Without a passage of title?

Mr. BARR. That is correct;

Mr. CLAWSON. That is a beneficial interest then in what, the FNMA or their power to borrow on the Treasury or what?

Mr. BARR. It is beneficial interest in a group of assets. It might be college housing, might be mortgages, might be Small Business Administration loans. It is in a pool of assets guaranteed by the agency and backed up by the appropriation of Congress.

Mr. CLAWSON. And backed up by the Treasury of course, eventually; is it not?

Mr. BARR. Backed up in the ultimate by the Congress, sir. The Treasury is nothing but the authority of Congress.

Mr. CLAWSON. The investor would interpret that the Federal Government is backing this?

Mr. BARR. That is correct.

In short, it is clear that the Under Secretary of the Treasury agrees that no sale actually takes place—that no title of ownership passes to the purchaser. What does occur is that the purchaser of the participation buys a beneficial interest in a group of assets at a very lucrative return.

To use a colloquial expression, all a purchaser would get would be “a piece of the action.”

The Public Will Be Fooled—But It Will Pay

The participation sales program is a device to fool the public on budget expenditures. It is a costly delusion.

Everyone agrees that FNMA participation financing is more costly than direct Treasury financing. The differential in cost will vary from time to time depending upon financial markets. The administration claims it will amount to one-fourth to three-eighths percent. The fact remains that on the most recent offers of participations by the Export-Import Bank and FNMA the interest rate differential was a full one-half percent.

Eximbank in February of this year sold \$360 million of participations at a $5\frac{1}{2}$ percent rate. FNMA on March 16 of this year sold \$410 million of participations with interest rates of $5\frac{1}{2}$ percent for intermediate maturities. In February of this year the Treasury Department on a refunding offer sold over \$6 billion of 5-percent notes due in 1970. These notes have been referred to as the “Johnson 5’s.”

On a yield differential basis the spread was even greater than the one-half percent spread in coupon rates. On the day the FNMA participations were offered with the 1970 maturity on a $5\frac{1}{2}$ -percent yield basis, the “Johnson 5’s” of 1970 were selling at a premium in the Government bond market. The closing bid and asked for the “Johnson 5’s” that day was $100\frac{15}{32}$ bid and $100\frac{1}{32}$ asked. At the asked price, an investor would receive a yield to maturity of 4.86 percent.

The following table compares the yields on FNMA participations with yields on Government securities on the date the FNMA participations were sold.

20 SALE OF PARTICIPATIONS—GOVERNMENT AGENCY LOAN POOLS

Comparison of yields on FNMA participations and nearest comparable U.S. Government securities as of Mar. 16, 1966

FNMA participation certificates			U.S. securities, nearest comparable issue			Excess yield of FNMA certificates (percent)
Coupon rate	Maturity	Percent yield	Coupon rate	Maturity	Percent yield	
5.40	1967	5.40	3 $\frac{3}{8}$	1967	4.83	0.57
5.45	1968	5.45	3 $\frac{3}{8}$	1968	4.90	.55
5.50	1969	5.50	4	1969	4.87	.58
5.50	1970	5.50	4	1970	4.92	.58
5.50	1971	5.50	4	1971	4.94	.56
5.50	1972	5.50	4	1972	4.99	.51
5.50	1973	5.50	4	1973	5.03	.47
5.50	1974	5.50	4 $\frac{1}{8}$	1974	5.05	.45
5.50	1975	5.50	4 $\frac{1}{4}$	1974	5.02	.48
5.45	1976	5.45	4 $\frac{1}{4}$	1974	5.02	.43
5.45	1977	5.45	4 $\frac{1}{4}$	1974	5.02	.43
5.40	1978	5.40	4	1980	4.70	.70
5.35	1979	5.35	4	1980	4.70	.65
5.30	1980	5.30	4	1980	4.70	.60
5.25	1981	5.25	4	1980	4.70	.55

On the basis of the rate differential—one-half percent—on FNMA and Eximbank participations over the rate on “Johnson 5’s,” the added and unnecessary cost amounts to \$5 million a year on each \$1 billion of participations sold. On the \$4.2 billion of participations to be sold that is an added and unnecessary cost of \$21 million. If we assume the average maturity of the participations will be 10 years the taxpayer will be “nicked” for over \$200 million of unnecessary expenses.

The interest cost differential is not the only cost however. When an asset is sold outright by the Government the purchaser takes over the burden of servicing costs. Depending upon the nature of the asset, this servicing cost will amount to about one-half percent. So the above-cited costs would be doubled as between outright sale of assets and pseudo sale of assets.

What a burden to place on the taxpayer’s shoulders for fooling them on their country’s budget.

As the President himself observed in his recent message on consumer interests, “The consumer has just as much right to know the cost of borrowing money as to know the price of any other article he buys.”

The New System of Subsidized Financing

Without a single word of testimony from private lenders, this bill would establish a whole new system of subsidized financing. Private lenders were not even given an opportunity to testify on a bill that could establish a new lending system with which it would be impossible for them to compete. This is true of savings and loan associations, banks, insurance companies, mortgage bankers, and investment bankers.

The administration hammered away at the theme of “replacing public with private credit.” If so, why were we refused the opportunity of hearing even one single private witness? Why the reluctance to hear private views? Why?

The bill provides for the pooling of loans bearing submarket interest rates. The interest received on such assets would not be sufficient to pay the interest on the participations sold against the pools of such assets. To make up such deficiency in debt service, the bill would

authorize appropriations to the pooling agency of such sums as may be necessary to make up the deficiency between interest received on assets pooled and the cost of interest on participations sold. Actually, the provision in the bill is so broad that it could cover deficiencies in principal as well.

Under such an arrangement, there could be established a home lending program with a 3-percent interest rate. Savings and loan associations, banks, insurance companies, and mortgage bankers simply could not compete with such financing. Public facilities such as sewers, water, and other municipal improvements or educational facilities could be financed with a 2-percent rate. Investment bankers could not compete with such financing. This subsidized lending provision would thrust a dagger in the heart of our private enterprise financing system.

Instead of the bill replacing public with private credit, on the contrary the bill would do just the opposite. It would establish a broad system of subsidized credit, asking our private lending system to dig its own grave by purchase of participations.

A Balanced Budget Can Be Achieved—By Bookkeeping

The administrative budget for fiscal year 1967 contemplates a budget deficit of \$1.8 billion. An integral part of this budget is the proposed sale of \$4.7 billion of financial assets. Of that total, \$500 million is to represent actual or legitimate sales of assets and \$4.2 billion is to be achieved by participation "sales" of assets. The proceeds will be used to offset expenditures that otherwise would have to appear in the budget. In other words, if the \$4.2 billion of participation "sales" are not made, the budget deficit will be \$6 billion in place of \$1.8 billion.

Using the participation device, the administration easily could have projected the fiscal year 1967 budget to reflect a surplus rather than a deficit. All the administration would have had to have done was to project participation sales in an additional amount of \$1.8 billion. This easily could have been done. Could it be that the administration did not wish to risk overplaying its hand?

Under the new legislative proposal, participation sales are to be made in new agency lending programs in the amount of \$2.8 billion. As of June 30, 1966, it is estimated that these agency holdings of financial assets will total \$7.7 billion. To balance the fiscal year 1967 budget, all the administration would have to do is sell an additional \$1.8 billion of participations in these new agency participation programs. The additional participation sales could be credited as a budget receipt rather than being used to provide funds for new lending.

Such budget maneuvering would in no way exhaust the possibilities of this new device. The Federal Government owns \$33.1 billion of financial assets. Any or all of these could be pooled for participation sales in whatever amount the capital markets would absorb. Wide-open manipulation of the budget therefore is possible. For instance, assuming that the capital markets would finance a much larger volume of participations it would even be possible to take fiscal year 1967's \$112.8 billion budget expenditures and reduce them below the mystic \$100 billion level by selling off enough participations against the \$33

billion of assets held to accomplish that budgetary result. This device through bookkeeping manipulation can make a shambles of the administrative budget. We might as well junk it.

The Debt Limit Will Become Meaningless

Just as budget expenditures can be given the runaround by this participation device, so too can the Federal debt limit. As previously mentioned, the Federal Government holds \$33 billion of financial assets. That is a measure of the jimmying that can be done to the Federal debt limit, if participations are sold on these assets and proceeds used to retire the Federal debt. The Government of course still would have the debt in the form of obligations sold by FNMA. But FNMA debt is outside of the Federal debt limit. It is the old shell game. Now you see it, now you don't. But it is there just the same.

It makes no difference as to what the quality of these assets are. It makes no difference as to whether maturities are "short" or "long." It makes no difference what the rate of interest on the assets is. The poorest of them and the most undesirable *from an investment point of view* could be pooled and participations sold against them. They would be just as readily marketable and they would sell at the same rate of interest as participations sold against a pool of the best of these assets. The reason for this is that the investment quality of the participations is established by the FNMA guarantee of the participations, in turn backed by an *unlimited draw on the U.S. Treasury*, rather than by whatever the quality of the assets pooled.

It is a neat gimmick. Indirectly Government credit could be used to effect a reduction in the Federal debt.

The miracles of bookkeeping are indeed marvelous!

Breaching the 4¼-Percent Government Bond Ceiling Rate

FNMA participations not alone give the budget and the debt ceiling the runaround, they also give the 4¼-percent Government bond ceiling rate the runaround. The Federal Government itself may not sell bonds with maturities longer than 5 years at an interest rate above 4¼ percent. There is no such interest-rate ceiling on FNMA participation sales. In the latest FNMA participation sale on March 16, 1966, maturities due within a 3-to-7-year range carried an interest rate of 5½ or 1¼ percent above the Treasury bond-rate ceiling.

Likewise in the most recent sale of Export-Import Bank participations in February of this year the participations were sold at a 5½-percent interest rate.

FNMA participation certificates are not subject to the 4½-percent U.S. bond rate limitation because they are not obligations of the U.S. Government. Section 306 of the FNMA Charter Act provides that FNMA obligations "* * *" are not guaranteed by the United States "* * *." Notwithstanding this, participation certificates to be sold by FNMA for other agencies will be guaranteed by FNMA and that guarantee in turn is supported by the unlimited right of FNMA to borrow from the U.S. Treasury in any amount or amounts that may be needed to pay principal and/or interest on the certificates. Any time the Treasury wants to give the 4½-percent bond rate ceiling

the runaround all it has to do is turn over to FNMA the job of long-term financing.

Economic Impact

We all know that even under the theories of the "new economics" where budget deficits have taken on less importance, there nevertheless exists within members of both parties in the Congress a "puritanical" sensitivity to runaway deficits. Perhaps the reason for this is that every nationwide poll shows a surprisingly high percentage of American voters clinging to the supposedly puritanical notion that deficits must at least be controlled.

The one factor most influencing executive department and congressional spending habits is the estimated size of the Federal deficit. Few would quarrel with the observation that the present Congress would be spending far less had next year's deficit been estimated to be \$5, \$10, or \$15 billion instead of the estimated \$1.8 billion contained in the President's budget message. In fact, the majority of a surprised joint session of Congress apparently took the President's estimate of next year's deficit as a green light for still greater Federal program expenditures, rather than embarking on a period of "digestion" as had been recommended for this year by the Senate majority leader.

Under this bill, the psychological lid to Federal spending imposed by budgetary restraints is blown sky high. If all that need appear in the administrative budget on several multibillion-dollar programs will be the difference between receipts on assets pooled and debt service on participations sold, Congress itself will be kept in the dark on the economic impact of its spending policies. We could set into motion tens of billions in new or increased subsidized interest rate programs at a budgetary cost of only 2½ to 3 percent of the amount in new spending.

While the budgetary impact might be slight, the economic impact would be just as intense as under the traditional approach whereby Federal spending is funded by Treasury borrowings under the statutory debt limit.

In fact, in a period of rapidly increasing living costs a prudent President who himself was aware of the dangerous toy he had conceived would have a hard time controlling congressional spending habits. With a wholly artificial budgetary surplus or small deficit, pork barrel spending programs could never be held in check.

We have all seen the TV commercials extolling the virtues of debt consolidation services, whereby a family overburdened with mortgage, automobile, and other time-payment consumer installment debts can mix them all together in one big heap and forget its worries. The pitchman doesn't bother to say that the total debt *increases* because of new interest payments piled on old. Nor does he bother to warn the family against taking a further credit buying binge based upon its sudden feeling of "instant affluence." Restraint is thrown to the wind.

So it could be with the technique of hiding huge Federal expenditures from the budget. Just as in the case of the family having its debts consolidated, the Federal Government and the Congress would be tempted to embark on an unrestrained splurge in spending.

Impact on Home Mortgage Market

The home mortgage market is in an unprecedented state of turmoil and confusion. This proposal would promote chaos in that market.

Why would any lender buy a 5½ percent FHA or GI mortgage and have to pay the cost of servicing such mortgage when he can buy a FNMA participation and obtain a rate of 5½ percent?

Inevitably, one of two things would happen. Either funds would be drawn from the home mortgage market or discounts would increase on FHA and GI mortgages and other home mortgages as well. This proposal would increase the costs of home mortgage financing.

Under this proposal, FNMA would be called upon to raise \$2.8 billion of funds for other Government lending agency programs. That would take \$2.8 billion of funds out of the private capital markets. That is \$2.8 billion of new competition for home mortgage financing. The irony of the proposal is that FNMA, which is a home mortgage financing facility, would be called upon to commit hari-kari in the home mortgage market.

This proposal is the way to ever higher home mortgage financing costs. That is the public's participation in this proposal.

FNMA Could Finance Foreign Aid

Under the administration's proposed Participation Sales Act of 1966, FNMA is to become a financing agency for other Government lending agencies.

The budget estimates that at the close of June 30, 1966, there will be outstanding \$33.1 billion direct loans under various Federal credit programs. The largest and most rapidly growing (from the standpoint of dollar volume) of the Federal loan programs is that of the Department of State through its Agency for International Development. At the close of fiscal year 1965 the volume of direct loans outstanding made by this Agency was \$9 billion. At the close of fiscal year 1966 the estimated outstanding volume is \$10.5 billion. At the close of fiscal year 1967 the estimated outstanding volume is \$12 billion.

FNMA in its new role of "Federal hockshop" could sell participations in a pool of such loans. It makes no difference that these AID direct loans bear interest in some instances as low as three-quarters of 1 percent per year or that in some cases they have maturities as long as 40 years. The legislation proposed authorizes appropriations for any agency pooling its loans with FNMA in an amount sufficient to make up any deficiency between income received on the loans, and interest paid on participations sold on the pooling of such loans. FNMA thus will not suffer any loss so it is painless financing for FNMA.

Obviously these AID loans are nonsalable and participations in a pool of such loans likewise would be nonsalable if FNMA did not guarantee the payment of principal and interest on the participations sold, and if that guarantee was not backed up by the unlimited draw of FNMA on the U.S. Treasury for any funds that might be needed to pay such principal and interest.

Let us explore the budgetary possibilities of such a transaction. As noted above, AID holdings of foreign aid loans are expanding at a rate of \$1.5 billion per year. Under the present system, that is a \$1.5 billion charge per year against the administrative budget. Under

the participation sales device, the only charge against the administrative budget would be the appropriation to make up the deficiency between the income received on the loans pooled and the interest cost of the participations sold. Assume such loss differential to be 3 percent, the budget charge then would be 3 percent of \$1.5 billion *or only \$45 million per year*. Financing foreign aid becomes almost painless insofar as the budgetary impact is concerned.

Can the Congress perpetrate such a hoax on itself and the public?

FNMA Could Finance the U.S. Treasury

Under the proposal FNMA would be authorized to sell beneficial interests or participations in loans pooled by Government agencies. The loans pooled would be subject to a trust of which FNMA would be trustee. FNMA unconditionally would guarantee principal and interest of the participations sold and that guarantee would be backed up by the unlimited right of FNMA to borrow funds from the U.S. Treasury in whatever amounts might be necessary to make good on FNMA's guarantee of principal and interest on participations sold.

The pooling arrangements with FNMA would apply to "any obligations in which the United States or any executive department, agency, or instrumentality thereof may have a financial interest." Such broad language, of course, includes the Department of Treasury itself. That leads to a situation in which FNMA could sell participations in loans held by the U.S. Treasury while at the same time the only reason the participations are readily salable is the fact that they enjoy the unlimited indirect guarantee of the U.S. Treasury.

That FNMA could thus finance the U.S. Treasury is more than a hypothetical possibility. In 1945 the U.S. Treasury made a \$3¾ billion loan to the United Kingdom. The loan bears 2 percent interest and originally was repayable in 50 installments, beginning December 31, 1951. In 1957 an amendment of the terms of the loan permitted the deferral of up to seven payments of principal and/or interest with any deferred principal payments to be added on at the final maturity of the loan. Principal and interest was deferred in the years 1957, 1964, and 1965. The final maturity of the loan is therefore 2004. As of the close of 1965 there remained outstanding \$3.15 billion of principal. If one were to guess at the market price of such a loan, a generous appraisal would be a price of 60—60 cents on the dollar.

Under the administration's proposal, the Treasury Department could pool that loan, subject it to the FNMA trust, and FNMA could sell \$2.5 billion of participations. While that would amount to but 80 percent of the face value of the loan, it actually would amount to 133 percent of the probable market value of the loan. Nevertheless, the participations would be readily salable in the market because of the FNMA guarantee which in turn is backed up by an unlimited draw on the U.S. Treasury.

Why might the Treasury want to do this? The reason would be the same as for any other Government agency for which FNMA would sell participations in a pool of loans. Proceeds of the participations sold go to the agency pooling the loans which in turn could use the receipts to make additional loans. The Treasury, the same as any other department or agency, has need for funds. Treasury might want to make another British loan to bolster the British balance-of-

payments position. Likewise, the Treasury Department might want to use such proceeds to extend billion dollar credits to Latin America or the proposed Great Society for southeast Asia.

Low interest rates on such new loan commitments would be no impediment, because the administration proposal would authorize appropriations to make up any difference between principal and interest received on loans that were pooled and principal and interest paid on participations sold. The new loans *would not even appear in the budget* because proceeds from the participations sold would be used to offset such loans. In the absence of participation sales, such expenditures would appear in the budget as an item of expense.

Financing Post Offices

In the brief hearing on the bill the committee was honored with the presence of the Postmaster General. We ascribe no ulterior motive to his presence.

Apparently he alone, among Cabinet officers, grasps the potentialities of this legislation. He could have a very legitimate interest in it. He could finance the construction of new post offices in every village and hamlet throughout the land. Through the FNMA participation device this financing could be accomplished outside of the debt limit and with only nominal adverse impact on the Federal budget. Here is the way it would work.

Section 2(a) of the bill provides that "any executive department" may pool assets with FNMA, which in turn may sell participation certificates against such pooled assets. The Postmaster General is clearly eligible to participate in the program.

Assume that in a given year he would like to build a billion dollars worth of post offices. That would be a billion dollar charge against the budget and we would think he would have a difficult time getting appropriations in that amount for that purpose—assuming the Bureau of the Budget even would permit him to make such a request. Under this legislation, however, he could overcome Bureau of the Budget and Appropriation Committees' objections through the FNMA participation device.

He could contract with private construction companies for a billion dollars' worth of post offices. Using funds temporarily borrowed from the Treasury Department he could finance these by making available to the private contractors a billion dollars of funds to be secured by first mortgages on the post offices to be constructed. He then would be in possession of a billion dollars' worth of financial assets. These could be pooled with FNMA and a billion dollars' worth of participations sold. The proceeds of the billion dollar sale of FNMA participations would be paid to the Postmaster General which in turn could be used to repay the temporary loan that the Postmaster General had received from the Treasury for the initial advances on the mortgages.

Undoubtedly the Postmaster General would insist that the post offices be subjected to a lease-purchase arrangement. That is to say the Government would lease the new buildings under terms whereby at the end of say 20 years the lease would terminate and title to the actual buildings would revert to the Government. Such a lease probably would be capitalized at 5 percent which means that during the 20-year interval the Government only would pay out rentals of

\$50 million a year. That would be the only expense that would be charged to the budget.

Think of it! There would be no billion dollar charge against the budget—the only charge would be \$50 million a year. Since FNMA finances outside the debt limit the billion dollars of permanent financing would not appear as an increase of Federal debt.

Back in the 1920's Chicago had a mayor who used to advertise himself as "Big Bill the Builder" because of the many public projects that were constructed during his administration. With the FNMA financing device the Postmaster General could make him look like a piker.

Compound Conflict of Interest

Even a Philadelphia lawyer probably would be amazed at the conflict of interest facets of this proposal.

FNMA is a *mortgage banker*. It is a *trustee*. It is both a *trustor* and a *beneficiary* of its own trust. It is a *guarantor* of the participations it sells. As elsewhere noted, in exempting the trust from taxation the *trust is categorized as a corporation*.

This is the creature the Congress is creating. Can you imagine the torrents of congressional criticism that would ensue if a similar compound conflict of interest setup was attempted by private enterprise?

The "Cozy" Arrangement

FNMA has sold four issues of participations. Each time they have been sold to four big Wall Street investment houses. These are: Morgan Guaranty Trust Co. of New York; Merrill Lynch, Pierce, Fenner, & Smith; Salomon Bros. & Hutzler; and the First Boston Corp. They take turns appearing at the head of the syndicate.

On the first issue, Morgan Guaranty Trust Co. of New York was at the bottom of the list. On subsequent sales it moved up a notch at a time so that on the fourth and last sale of FNMA participations it appears at the top of the list.

It is a nice "clubby" arrangement—\$1.6 billion of business and over \$5 million of commissions. Under this bill that clubby arrangement could continue. If the volume of FNMA participation financing is to get up to that contemplated by the bill, what's wrong with requiring by statute that the participations be sold on a competitive bid basis?

Is It a Coverup?

Section 2(b) of the bill contains an intriguing sentence. It states "The effect of *both past* and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust." What is the significance of making this interpretation apply to "past sales"? Is this a coverup on some past action? Is there by chance doubt as to the legality of how the proceeds of past sales have been treated?

Under the FNMA Charter Act participation sales are made subject to section 307 of the Charter Act which deals with the separate accountability of FNMA functions.

With respect to the management and liquidating functions of FNMA, which is the authority under which participations are sold,

section 307 of the Charter Act states that "such related earnings or other amounts as become available shall be paid annually by the Association to the Secretary of the Treasury for covering into miscellaneous receipts."

Has FNMA violated the law in its disposition of past receipts from participations they have sold? Is the applicability of this sentence to "future sales" to negate this provision of existing law without actually directly amending the law? Frankly, this is such unusual language that it is something with which the committee should have concerned itself.

The committee would have been justified in calling the Comptroller General as a witness on this bill if for no other reason than to explore the meaning of this sentence.

The Eisenhower Program

It is claimed this participation sale proposal is but an extension of the sale of assets programs inaugurated by the Eisenhower administration. Cited by some is an FNMA swap in fiscal year 1960 of \$311 million of low-interest mortgages it held for \$316 million of non-marketable Treasury investment bonds owned by the public. That was a straightforward transaction.

The mortgages were sold on a competitive bid basis and paid for by bonds held by investors. Actual title to the mortgages passed to the purchasers. Proceeds of this deal were carried in the budget as a budget receipt. The bonds acquired by FNMA were surrendered to Treasury for cancellation. Thereupon, Treasury reduced FNMA's indebtedness to it by a like amount. There was no budget runaround in that transaction at all.

Incidentally, that mortgage-bond swap was denounced bitterly by Democrats in the Senate. On August 20, 1959, a sense of the Senate resolution (S. Res. 130) expressing disapproval of the plan was passed by an almost party-line vote of 56 to 29.

Included in those supporting the disapproval resolution were the then majority leader of the Senate and the then senior Senator from Minnesota.

An administration witness stated that expansion of the asset sales program was urged in 1963 in a minority report of the House Ways and Means Committee on H.R. 6009 (to provide temporary increases in the public debt limit). Of course the Eisenhower administration pursued a sale of assets program but it was a legitimate sales program. There was no reason why the Federal Government should continue to hold assets which could be sold lock, stock, and barrel to the private market. That is what the minority report of the Ways and Means Committee in 1963 was talking about. Please note that it did not say one word about participations. It talks about sales of marketable Government assets. It talks about sales of loans which are readily marketable and for which a very good market existed. Following is the exact language from that report:

The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets. This provides the Treasury with another "cushion."

For example, when the Secretary of the Treasury was before the committee on February 27, we suggested that it

was incumbent upon the administration to show "good faith" before coming to the Congress for an additional increase in borrowing authority. We pointed out that the Government held about \$30 billion in loans, many of which were readily marketable. In fact, there was a very good market for many of these loans. Instead of increasing its offering of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in its borrowing authority.

It was also pointed out to the Secretary of the Treasury that the Government had other assets which might be liquidated, such as the stockpile of strategic materials amounting to about \$8.7 billion.

Our refusal to grant the administration's request last February produced results. In the interim of less than 2 months the administration found that it could increase revenues from the sale of loans by an additional \$1 billion for fiscal 1963. Now, the administration estimates that it will realize \$2.082 billion—as contrasted with an original estimate of only \$0.929 billion less than 2 months ago. In view of this development, we challenge the administration's most recent estimates of borrowing needs.

Republicans did not then, nor do we now, quarrel with *actual sales of marketable assets*.

Committee Action

The printed bill was not available to committee members until about one-half hour before the hearings began. About 2 hours of hearings were held during which the Under Secretary of the Treasury and the Director of the Bureau of the Budget testified. Each stated the bill would not weaken congressional control. Such statements were challenged directly by a member of the minority as being misstatements of fact as far as the language of the bill was concerned.

It was pointed out that authorizing committee control would be weakened because the language of the bill did not require that the agency pooling the loans guarantee the loans pooled. The requested authority was merely permissive. The bill stated that the agency *may* guarantee pooled loans. If the agency did not guarantee pooled loans there would be no limit on agency lending activity for the reason that funds endlessly would become available through proceeds of participation sales which could be used to make new loans within the agency's authorized lending limit. The authorizing committee would have lost complete control of the level of loan activity.

However, if the agency is required to guarantee loans pooled, then an effective limit would be maintained because in setting up a revolving fund for an agency the language usually states "The total amount of loans, guarantees, and other obligations or commitments outstanding at any one time shall not exceed x dollars." Proof that the administration had misread its own bill was forthcoming immediately when the witnesses agreed to change the "may" to "shall," thereby requiring by statute that the agency guarantee loans pooled. This change restored the control of the authorizing committee.

With respect to maintaining control by Appropriations Committees another substantive change was made in the provisions of the bill as introduced. Although unclear, apparently it was the intent of the provision with respect to Appropriations Committees' control to require advance approval of participations to be sold where submarket assets were to be pooled requiring an appropriation to make up the difference between receipts from assets pooled and debt service on participations sold.

No Appropriations Committees' approval would have been required for participation sales which did not involve an appropriation deficiency.

The ranking minority member of the committee asked the witnesses if they would approve changing the proposed language so as to require advance approval by the Appropriations Committees of all proposed participation sales, whether or not they involved subsidy payments. After an initial rejection of this proposal, and a break for lunch, agreement on such a change was forthcoming. Nevertheless, the language of the new paragraph (5) which section 2(b) of the bill would add to section 302(c) of the FNMA Charter Act raises serious questions as to whether or not congressional control over appropriations would be protected.

But it was only after these changes that the bill would actually do what its advocates had contended.

A sentence in section 2(b) of the bill states, "The trust or trusts shall be exempt from all taxation." The section-by-section summary provided by the Treasury Department interprets this brief sentence as follows: "This, in effect, would categorize the trust as a corporation and exempt its income from taxation. Since the trust is a corporation, the income received by the participation holders would be taxable dividends, even if part of the income earned by the corporation would have been tax exempt if owned directly by an investor." Now, who would ever have thought that simple sentence meant that?

The committee acted with such rapidity that there was no opportunity to confer with members of the Ways and Means Committee as to what that simple sentence really meant. The committee has no idea how many other "simple" sentences there may be in the bill with widespread unstated ramifications. If there ever was legislation to which the committee should devote careful and intense scrutiny, this is such a bill. This was not done. Even the administration witnesses conceded that this was "peculiar" language.

After ordering the big participation bill reported, the committee then took up the individual SBA participation bill, S. 2499, and promptly ordered it reported. The committee did not even take the trouble to make it conform with the two substantive amendments which had been made to the overall participation bill. So the little SBA participation bill still is couched in terms which give the authorizing and Appropriations Committees the runaround. Actually there is no need for action on the small SBA bill at all. Under the overall participation bill SBA is 1 of the 100 agencies for whom FNMA can provide participation financing.

Committee Inaction

In the very brief executive session in committee on this bill there was no opportunity for the committee to really ascertain what this legislation is all about. Section 2(a) of the bill would amend the first sentence of section 302(c) of the FNMA Charter Act so that it would read as follows:

(c)(1) Notwithstanding any other provision of this Act or any other law, the Association is authorized under section 306 to create, accept, execute, and otherwise administer in all respects such trusts, receiverships, conservatorships, liquidating or other agencies, or other fiduciary and representative undertakings and activities, *hereinafter in this subsection called "trusts"*, as might be appropriate for financing purposes; and in relation thereto the Association may acquire, hold and manage, dispose of, and otherwise deal in any obligations *and other types of securities, including any instrumentality commonly known as a security, hereinafter in this subsection called "obligations"*, in which the United States or any Executive Department, agency, or instrumentality thereof may have a financial interest.

The new language added by this bill appears in italic.

Two years ago when this first sentence of subsection (c) was added to section 302 of the FNMA Charter Act no one took the trouble to inquire as to what authority was intended by empowering FNMA to administer "receiverships, conservatorships, liquidating or other agencies, or other fiduciary and representative undertakings and activities * * *"

In the committee's consideration of the present bill, although an amendment as indicated above was made to this sentence, no consideration was given to this broad authority of FNMA to administer receiverships, conservatorships, liquidating, or other agencies, or other fiduciary and representative undertakings and activities.

Since FNMA can jimmy the budget, the debt limit, and the 4½-percent bond ceiling rate under its simple participation sale authority, what in the world might it do under this extremely broad but apparently still unused authority that is in the statute? Had the committee done its job it would have sought an answer to this question. Lacking a good answer it should have stricken this other extremely broad authority from the law.

Under existing authority, FNMA has sold \$1.6 billion of participations. Similarly, the Eximbank has sold \$1.7 billion of participations. But the Chairman of the Eximbank was not called as a witness before the committee. It seems to us he would have been a valuable witness if for no other reason than the fact that Eximbank had sold its \$1.7 billion of participations without paying over \$5 million of commissions to a banking group. Eximbank had no more expense than the cost of telegrams and letters.

The President of FNMA was not called as a witness on this big participation bill. Yet it is his organization that will be selling and guaranteeing the billions of dollars of financing to be done.

Conclusion

Thomas Jefferson once warned, "Never buy what you do not want because it is cheap; it will be dear to you."

That sums it up. This bill offers a cheap budgetary way to circumvent the statutory debt and interest limits, while lulling the people into thinking that the millennium has arrived. But while budget-conscious Americans may be fooled, they will pay dearly.

If our charges are untrue, then why the unnecessary haste in committee? Why should private witnesses be denied the opportunity to testify on such a far-reaching proposal? Are we very far from the day when the Clerk will call the roll at the conclusion of the reading of the President's annual budget message?

Former Speaker of the House Thomas Reed once observed that our committees were "the eye, the ear, the hand, and often the brains of the House" on legislation under its jurisdiction. "Freed from the very great inconvenience of numbers," he said, "it can study a question, obtain full information, and put the proposed legislation into shape for final action."

This, your committee has not done. If the House is to give further consideration to the proposal, the bill should first be sent back to the Committee on Banking and Currency for the intensive hearings and study that a proposal of this magnitude requires.

If not, using the collective mind of its own, the House should overwhelmingly reject the bill.

WILLIAM B. WIDNALL.
PAUL A. FINO.
FLORENCE P. DWYER.
SEYMOUR HALPERN.
W. E. BROCK.
BURT L. TALCOTT.
DEL CLAWSON.
ALBERT W. JOHNSON.
J. WILLIAM STANTON.

INDIVIDUAL VIEWS OF CONGRESSMAN PAUL A. FINO ON H.R. 14544

I would like to express my concurrence with the minority views while elaborating on the multiplicity of reasons why this fiscal and monetary monster should find a congressional graveyard. Like all "crisis economics" proposals, this scheme blends economic shakiness with political opportunism. Its Achilles heels are numerous. The following are the reasons why I opposed reporting and will oppose passage of this legislation:

(1) Government moneyraising through sale of participation in pooled assets (loans) is more expensive than Treasury borrowing, and no valid reason has been presented for either circumventing the Treasury to obtain this money *or* for going to such lengths to obtain money when the budget has fat to be slashed.

(2) The reason offered for using sale of pool participations to raise money rather than Treasury borrowing—even at admitted higher costs—is the deception that the administration wants to bring in private capital. The reason offered for wanting private capital is phrased in all sorts of free-enterprising terminology. The *real* reason for private capital being desired is that while Treasury borrowing would be of no budget camouflage assistance, private funds obtained through pool participation sales refinancing can be chalked up on the plus side of the budget ledger.

(3) Thus the administration is concerned about avoiding Treasury borrowing in favor of bringing in private capital, *but only* because private funds, and private funds alone, can serve as the receipts needed to camouflage the budget deficit and make a budget that would otherwise be politically vulnerable safe for waste and extravagance.

(4) Under guise of "recruiting" private capital to share the burden of Government capital, the administration is offering a program the real thrust of which is to establish a mechanism through which, in budget deficit years, the extent of the budget deficit can be camouflaged by receipts gained from a sale of Government assets for private funds. I hardly need to add that this is a mechanism for economic and political fraud.

(5) If the Administration was concerned about sharing its loan burden in numerous programs with private credit, it might put a stop to these programs making Government-subsidized loans in unfair competition with private credit. A January 1966 report of the General Accounting Office stated that some 20 percent of Farmers Home Administration loans are made in unfair and improper competition with private credit sources against the prohibition of Congress. In the fiscal 1967 budget, the Administration proposes to pool \$600 million worth of these loans in order to "bring in" private credit. What hypocrisy: Private credit should have been brought in before many of the unfair Farmers Home Administration loans were made in the first place.

(6) The huge potential loan-pooling mechanism is actually a menace to, rather than a stimulus and boon to private credit. The pool participation sales refinancing of these several forms of Government loans will, admittedly, increase the total volume of these Government loan programs which *compete* with private credit.

(7) What with the Government steadily increasing its share of national loan making through new loanmaking programs, the increase in the volume of each of these loan programs which will be made possible by the pool-refinancing device will move the Nation inexorably toward socialized credit where the Government will make the loans in toto and bankers will be relegated to the position of de facto civil servants who invest in regulated participations at regulated rates.

(8) Not only is this type of program expensive because it avoids Treasury financing in favor of bringing in "private" funds at a higher cost, it is expensive because by its very political nature, these refinancings will occur in budget deficit years where inflationary pressures will have interest rates at high levels. In other words, this device, as a largely political device, will promote refinancing for budget camouflage purposes in just those years where refinancing will be most costly to the taxpayers because of the high interest rates that will have to be paid.

(9) Similarly, this program, by covering up the extent of real budget deficits, will make the Federal budget safe for increased Federal spending in just those years where already too high Federal spending levels have created an inflationary budget imbalance. No doubt the programs kept in the budget by use of this device to disguise budget deficits will be the most unjustifiable and wasteful power-grabbing programs in the arsenal of Federal spending. This is a device to make the budget safe for the worst of programs in the tightest of years.

(10) The budget impact of this program is not confined to adding receipts to the plus side of the budget ledger. It also eliminates the need for certain new obligational authority on the minus side of the budget. The net effect of this sort of thing with respect to the room it can make for waste in an otherwise vulnerable budget is *doubled*.

(11) Heavy sale by Fannie Mae of participations in pooled loans is liable to soak up investment funds available, forcing up the rates the Government will have to pay on other issues just at a time when the real budget is gravely out of balance.

(12) Mortgage lending is particularly likely to suffer from the impact of high interest bearing pool participation shares. Who will buy a VA- or FHA-insured mortgage at $5\frac{3}{4}$ percent, assuming the cost or paying a one-half of 1 percent service charge, when FNMA participations can be bought which will pay something like $5\frac{1}{2}$ percent, with the purchaser's only exertion being a form of coupon clipping. This participation sales program is a mechanism designed to kick the mortgage market while it is down. The public's participation in this program will be ever-higher home mortgage financing costs. Needless to say, this will also strike at homebuilders, realtors and building trades unions.

(13) Congressional control over loan programs run by the Government which are refinanced by this device will be impaired. Granted that an appropriation made for such a program will have to specify the amount against which participations can be sold (in effect, the amount

which can be refinanced), this still undermines the congressional authorization process. Once a program gets past the authorizing committee, some further degree of authorization can be avoided if its appropriation allows a big enough amount of refinancing. This will substantially impair the meaning of the authorization process without providing a sufficient counterbalance in the appropriations process. The Administration is trying to twist the separate and distinct authorization and appropriations processes into a pretzel through which budget trickery can pass unscathed.

I am completely opposed to this scheme. It is an economically unsound attempt to create a mechanism for budget gimmickry. To those nonreaders of history who may attempt to say that this was done under the Eisenhower administration, I say very simply that the proceeds were not brought in at outrageous interest rates for budget gimmickry, but were rather obtained at fair rates and used to retire the national debt. The difference is the difference between night and day—and between integrity and deceit.

I regret that we had only one day of hearings on this bill, which was incredibly reported out of committee the day after the Presidential message was received. This program is like Pandora's box—the Nation would not accept it if they knew what was in it. As usual, deception is the objective and public ignorance of what is going on is administration bliss.

PAUL A. FINO.

SEPARATE VIEWS OF CONGRESSMAN CHESTER L. MIZE

I am opposed to the passage of this legislation for several reasons.

Though I am in complete accord with the proponents of the bill on the basic advantages of substituting private credit for public credit, I do not feel this is a proper way to accomplish this end. It is so expensive and piles another type of financing program on top of existing programs. I feel if we are convinced we are right in moving toward substitution of private credit for public credit, we should take bold and imaginative steps in establishing Government guarantees to private institutions for existing bank loans being made by the Small Business Administration and other agencies.

I sincerely regret that representatives of the private financial sector, such as savings and loan associations, insurance companies, mortgage bankers, and investment bankers, were not invited to discuss this vital piece of legislation with our committee.

I simply cannot accept the majority's view implying the great and immediate need for acting on this bill. The entire problem involved is too important to rush it through the committee and the Congress.

CHESTER L. MIZE.

Union Calendar No. 629

89TH CONGRESS
2D SESSION

H. R. 14544

[Report No. 1448]

IN THE HOUSE OF REPRESENTATIVES

APRIL 20, 1966

Mr. PATMAN introduced the following bill; which was referred to the Committee on Banking and Currency

APRIL 25, 1966

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Participation Sales Act
4 of 1966".

5 SEC. 2. (a) Section 302 (c) of the Federal National
6 Mortgage Association Charter Act is amended—

1 (1) by inserting “(1)” immediately following
2 “(c)”;

3 (2) by inserting after “undertakings and activities”
4 a comma and “hereinafter in this subsection called
5 ‘trusts’,”;

6 (3) by striking out the words “offered to it by
7 the Housing and Home Finance Agency or its Admin-
8 istrator, or by such Agency’s constituent units or
9 agencies or the heads thereof, or any first mortgages in
10 which the United States or any agency” in the first
11 sentence thereof and by inserting “and other types of
12 securities, including any instrument commonly known
13 as a security, hereinafter in this subsection called ‘obliga-
14 tions,’ in which the United States or any executive
15 department, agency,”;

16 (4) by striking out the third sentence thereof and
17 substituting therefor the following: “Participations or
18 other instruments issued by the Association pursuant
19 to this subsection shall to the same extent as securities
20 which are direct obligations of or obligations guaranteed
21 as to principal or interest by the United States be
22 deemed to be exempt securities within the meaning of
23 laws administered by the Securities and Exchange Com-
24 mission.”; and

25 (5) by striking out the fourth sentence thereof.

(b) Section 302 (c) of such Act is further amended by adding the following:

“(2) ~~Notwithstanding any other provision of law,~~
Subject to the limitations provided in paragraph (4) of this subsection, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the “trustor”, is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, ~~may~~ *shall* guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. ~~Notwithstanding any other provision of law, the~~ *The Association* may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: ~~Provided,~~ *That the* . *The* trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust,

1 subject to transfer to the trustee in event of default or prob-
2 able default, as determined by the trustee, in the payment of
3 principal and interest of the beneficial interests or participa-
4 tions. Collections from obligations subject to the trust shall
5 be dealt with as provided in the instrument creating the trust.
6 The trust instrument shall provide that the trustee will
7 promptly pay to the trustor the full net proceeds of any sale
8 of beneficial interests or participations to the extent they are
9 based upon such obligations or collections. Such proceeds
10 shall be dealt with as otherwise provided by law for sales or
11 repayment of such obligations. The effect of both past and
12 future sales of any issue of beneficial interests or participa-
13 tions shall be the same, to the extent of the principal of such
14 issue, as the direct sale of the obligations subject to the trust.
15 Any trustor creating a trust or trusts hereunder is authorized
16 to purchase, through the facilities of the trustee, outstanding
17 beneficial interests or participations to the extent of the
18 amount of his responsibility to the trustee on beneficial in-
19 terests or participations outstanding, and to pay his proper
20 share of the costs and expenses incurred by the Federal Na-
21 tional Mortgage Association as trustee pursuant to the trust
22 instrument, and for these purposes may use any appropriated
23 funds or other amounts available to him for the general pur-
24 poses or programs to which the obligations subjected to the
25 trust are related.

1 “(3) If *When* any trustor shall ~~guarantee~~ *guarantees*
2 to the trustee the timely payment of obligations he subjects
3 to a trust pursuant to this subsection, and it becomes neces-
4 sary for such trustor to meet his responsibilities under such
5 guaranty, he is authorized to fulfill such guaranty by using
6 any appropriated funds or other amounts available to him for
7 the general purposes or programs to which the obligations
8 subjected to the trust are related.

9 “(4) The Association, as trustee, is authorized to issue
10 and sell beneficial interests or participations under this sub-
11 section, notwithstanding that aggregate receipts from obli-
12 gations subject to the related trust are or may become insuf-
13 ficient in amount to provide for the payment by the trustee
14 ~~(on a timely basis out of current receipts or otherwise)~~ of
15 all interest or principal on such interests or participations
16 ~~(after provision for all costs and expenses incurred by the~~
17 ~~trustee, fairly prorated among trustors)~~: *Provided*, That no
18 such beneficial interests or participations shall be issued in
19 relation to any obligations unless the trustee determines there
20 is a reasonable probability there will not be an insufficiency
21 as aforesaid, or unless the amounts issued are within aggre-
22 gate principal amounts authorized in advance in appropria-
23 tion Acts, and it shall be in order to include provisions
24 authorizing such issuance in an appropriation Act. *When-*

1 ever such an aggregate principal amount is so authorized,
2 there shall be established on the books of the Treasury as
3 indefinite appropriations such sums as may be necessary from
4 time to time to enable the trustor to pay the trustee such
5 insufficiency as the trustee may require on account of out-
6 standing beneficial interests or participations, and such trustor
7 shall make timely payments to the trustee from such appro-
8 priations, subject to and in accord with the trust instrument.”

9 “(4) Beneficial interests or participations shall not be
10 issued for the account of any trustor in an aggregate
11 principal amount greater than is authorized with respect
12 to such trustor in an appropriation Act. Any such author-
13 ization shall remain available until used.

14 “(5) The Association, as trustee, is authorized to issue
15 and sell beneficial interests or participations under this sub-
16 section, notwithstanding that there may be an insufficiency
17 in aggregate receipts from obligations subject to the related
18 trust to provide for the payment by the trustee (on a timely
19 basis out of current receipts or otherwise) of all interest or
20 principal on such interests or participations (after pro-
21 vision for all costs and expenses incurred by the trustee,
22 fairly prorated among trustors). Whenever the issuance of
23 an aggregate principal amount is authorized pursuant to par-
24 agraph (4) of this subsection, such an authorization in an
25 appropriation act shall establish on the books of the Treasury

1 *as appropriations such sums as may be necessary from time*
 2 *to time to enable the trustor to pay the trustee such insuffi-*
 3 *ciency as the trustee may require on account of outstanding*
 4 *beneficial interests or participations. Such trustor shall make*
 5 *timely payments to the trustee from such appropriations,*
 6 *subject to and in accord with the trust instrument."*

7 SEC. 3. (a) Section 305 (c) of the Federal National
 8 Mortgage Association Charter Act is amended by deleting
 9 "by \$450,000,000 on July 1, 1966,".

10 (b) Section 401 (d) of the Housing Act of 1950 is
 11 amended by deleting "1968:" immediately preceding the
 12 first proviso and by substituting therefor "1965, and 1967
 13 and 1968:".

14 SEC. 4. (a) Section 303 (c) of title III of the Higher
 15 Education Facilities Act of 1963 is amended by striking out
 16 the first nine words in the second sentence and substituting
 17 therefor the following: "For the purpose of making pay-
 18 ments into the fund established under section 305".

19 (b) Title III of the Higher Education Facilities Act of
 20 1963 is further amended by adding after section 304 the fol-
 21 lowing new section:

22 "REVOLVING LOAN FUND

23 "SEC. 305. (a) There is hereby created within the
 24 Treasury a separate fund for higher education academic facili-
 25 ties loans (hereafter in this section called "the fund") which

1 shall be available to the Commissioner without fiscal year
2 limitation as a revolving fund for the purposes of this title.
3 The total of any loans made from the fund in any fiscal year
4 shall not exceed limitations specified in appropriation Acts.

5 “(b) (1) The Commissioner is authorized to transfer to
6 the fund available appropriations provided under section
7 303 (c) to provide capital for the fund. All amounts re-
8 ceived by the Commissioner as interest payments or repay-
9 ments of principal on loans, and any other moneys, property,
10 or assets derived by him from his operations in connection
11 with this title, including any moneys derived directly or in-
12 directly from the sale of assets, or beneficial interests or par-
13 ticipations in assets, of the fund, shall be deposited in the
14 fund.

15 “(2) All loans, expenses, and payments pursuant to
16 operations of the Commissioner under this title shall be paid
17 from the fund, including (but not limited to) expenses and
18 payments of the Commissioner in connection with sale,
19 under section 302 (c) of the Federal National Mortgage
20 Association Charter Act, of participations in obligations ac-
21 quired under this title. From time to time, and at least at
22 the close of each fiscal year, the Commissioner shall pay
23 from the fund into the Treasury as miscellaneous receipts
24 interest on the cumulative amount of appropriations paid out
25 for loans under this title or available as capital to the fund,

1 less the average undisbursed cash balance in the fund during
2 the year. The rate of such interest shall be determined by
3 the Secretary of the Treasury, taking into consideration the
4 average market yield during the month preceding each fiscal
5 year on outstanding Treasury obligations of maturity com-
6 parable to the average maturity of loans made from the fund.
7 Interest payments may be deferred with the approval of the
8 Secretary of the Treasury, but any interest payments so
9 deferred shall themselves bear interest. If at any time the
10 Commissioner determines that moneys in the fund exceed
11 the present and any reasonably prospective future require-
12 ments of the fund, such excess may be transferred to the
13 general fund of the Treasury.”

14 SEC. 5. Section 338 (c) of the Consolidated Farmers
15 Home Administration Act of 1961 is amended by striking
16 in the second sentence “and (8)” and inserting in lieu
17 thereof “(8) section 8 of the Watershed Protection and
18 Flood Prevention Act, as amended (16 U.S.C. 1006a);
19 (9) section 32 (c) of the Bankhead-Jones Farm Tenant
20 Act, as amended (7 U.S.C. 1011); and (10)”; and by
21 inserting in the fifth sentence after “title,” the following:
22 “section 8 of the Watershed Protection and Flood Prevention
23 Act, as amended, and section 32 (c) of the Bankhead-Jones
24 Farm Tenant Act, as amended,”.

25 SEC. 6. Nothing in this Act shall be construed to repeal

1 or modify the provisions of section 1820 (e) of title 38,
2 United States Code, respecting the authority of the Admin-
3 istrator of Veterans' Affairs.

4 *SEC. 7. Paragraph (7) of section 8 of the Federal*
5 *Credit Union Act (12 U.S.C. 1757) is amended to read:*

6 *“(7) to invest its funds (A) in loans exclusively to*
7 *members; (B) in obligations of the United States of*
8 *America, or securities fully guaranteed as to principal*
9 *and interest thereby; (C) in accordance with rules and*
10 *regulations prescribed by the Director, in loans to other*
11 *credit unions in the total amount not exceeding 25 per*
12 *centum of its paid-in and unimpaired capital and sur-*
13 *plus; (D) in shares or accounts of savings and loan*
14 *associations, the accounts of which are insured by the*
15 *Federal Savings and Loan Insurance Corporation; (E)*
16 *in obligations issued by banks for cooperatives, Federal*
17 *land banks, Federal intermediate credit banks, Federal*
18 *home loan banks, the Federal Home Loan Bank Board,*
19 *or any corporation designated in section 101 of the*
20 *Government Corporation Control Act as a wholly owned*
21 *Government corporation; or in obligations, participations,*
22 *or other instruments of or issued by, or fully guaranteed*
23 *as to principal and interest by, the Federal National*
24 *Mortgage Association; or (F) in participation certifi-*
25 *cates evidencing beneficial interests in obligations, or in*

1 *the right to receive interest and principal collections there-*
2 *from, which obligations have been subjected by one or*
3 *more Government agencies to a trust or trusts for which*
4 *any executive department, agency, or instrumentality of*
5 *the United States (or the head thereof) has been named*
6 *to act as trustee;”*

7 *SEC. 8. The Secretary of the Treasury, in consultation*
8 *with heads of agencies of the United States carrying on*
9 *direct loan programs, shall conduct a study, in such manner*
10 *as he shall determine, on the feasibility, advantages, and*
11 *disadvantages of direct loan programs compared to guaran-*
12 *teed or insured loan programs and shall report his findings*
13 *together with specific legislative proposals to the Congress*
14 *not later than six months after the effective date of this Act.*
15 *There are authorized to be appropriated such sums as*
16 *necessary for the purpose of this section.*

[Report No. 1448]

A BILL

To promote private financing of credit needs
and to provide for an efficient and orderly
method of liquidating financial assets held
by Federal credit agencies, and for other
purposes.

By Mr. PATMAN

APRIL 20, 1966

Referred to the Committee on Banking and Currency

APRIL 25, 1966

Reported with amendments, committed to the Com-
mittee of the Whole House on the State of the
Union, and ordered to be printed

opposition to manned bombers and should be overruled on his decision to scrap the B-58 supersonic bomber, a House Armed Services subcommittee reported yesterday.

The subcommittee, headed by Representative R. EDWARD HÉBERT, Democrat, of Louisiana, issued a caustic and strong report that lashed out not only at the Secretary of Defense but at the entire decisionmaking system of the Defense Department.

In a direct attack on judgment exercised at the Pentagon, the subcommittee recommended that "the National Security Act be amended to require the advice of Congress before the executive branch eliminates any major weapons system."

Backed by censored Pentagon testimony, the lengthy report contained these highlights:

The subcommittee was "shocked" to discover that McNamara's decision to scrap the Air Force supersonic B-58 bomber fleet by 1971, was neither "recommended nor truly supported" by any Air Force, civilian or military chiefs, and was opposed by most.

All Pentagon witnesses, except McNamara, questioned during a closed-door investigation of the bomber cutback plans held in late January and early February, favored development of a new replacement of the B-52 as necessary to supplement the Nation's long-range missile force.

All witnesses, except McNamara, also testified that the FB-111 fighter-bomber, a slightly modified version of the TFX, was suitable only as an interim replacement for the earlier and lighter B-52 C through F models, and was not a true strategic bomber capable of replacing the later, long-range B-52G's and B-52H's.

Gen. Curtis E. LeMay, retired Air Force Chief of Staff, said the United States is "below the minimum safe level" of strategic bomber strength for a nuclear war, and "far short" of the total needs for a conventional bomber war.

Dissent came from only one member of the nine-man subcommittee and, predictably, from the Defense Department, which said the majority report did not properly reflect McNamara's manned bomber views.

The committee dissenter, Representative LUCIEN N. NEDZI, Democrat, of Michigan, made his strong objections known in a minority report. He said the Hébert report "falls to deal adequately or objectively with the central issue involved in the inquiry—the future role of (strategic) manned bombers."

NEDZI said the majority was more concerned with "demonstrating the fallibility" of McNamara and "insinuations" against his creditability than getting at the facts. He said it was his understanding, despite the majority conclusion, that not all members of the Joint Chiefs of Staff and other top officials are convinced that a new strategic bomber, in addition to the FB-111, is clearly required.

PENTAGON'S REPLY

At the Defense Department, Assistant Secretary of Defense Arthur Sylvester issued a statement saying that the majority report has not "properly or fairly reflected the views" of the Secretary on the future of manned bombers.

Sylvester added that the Defense Department shares NEDZI's views as to the trivialities expressed and insinuations made against McNamara in the majority report.

A spokesman for the House Armed Services Committee said an overwhelming majority of the full committee approved the Hébert report. He would not disclose how many dissenters there were.

The published subcommittee hearings disclosed that Gen. John P. McConnell, Air Force Chief of Staff, testified that while the Air Force recommended the phaseout of 345 earlier B-52's and their replacement by 210 BF-111's it had not proposed the elimination of the Air Force's 80 supersonic B-58's.

Among the Pentagon witnesses who testified in favor of the development of a big new, long-range strategic replacement for the B-52 were Air Force Secretary Harold Brown, formerly McNamara's research chief, and John S. Foster, Jr., Brown's successor as the Pentagon's Director of Research and Engineering. Foster testified that he knew of no one at the Pentagon who shared McNamara's position.

Air Force military chiefs, including McConnell, LeMay, and Gen. John D. Ryan, SAC commander, urged that "full development" of the USAF's project for a such plane—the advanced manned strategic system or AMSA—should be launched immediately if it is to be ready when the later B-52's wear out in the mid-1970's. Brown and Foster felt there was time for further study of its characteristics.

McNamara testified that the need for such an aircraft was not clear and he would approve only limited funds for development of some components as a "hedge" against later developments that would prove it necessary. LeMay and the subcommittee said they were convinced that McNamara had made a "firm" decision against such a bomber but would not say so.

"AMSA will always be a step away," said the Hébert report. "Always held out as a hope and a promise but with little possibility of becoming a fact. SAC will be kept on tiptoes but it wouldn't be kissed."

The subcommittee recommended that: A minimum of \$11.8 million be added to the current budget to start full development (contract definition) of AMSA, and that it be pushed with vigor and full funding.

That the announced scrapping of the B-58 bombers be "immediately abandoned."

That the FB-111 program be approved.

BANKING AND CURRENCY COMMITTEE GROVELS WHEN ADMINISTRATION SNAPS FINGER TO DOUBLE-CROSS TAXPAYERS

(Mr. TALCOTT asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. TALCOTT. Mr. Speaker, faster than a committee could respond to a Presidential request for a declaration of war, the House Banking and Currency Committee supinely acquiesced to a near-fraudulent request of the administration to cover up the cost of the guns and butter regimen.

The vehicle is H.R. 14544, the so-called Participation Sales Act of 1966, which was hurriedly introduced on April 20, 1966. The President's message to Congress on the subject was delivered to the House on the same day, but, uncusomarily, was not even read.

A notice of a committee hearing on the bill was given the day before the bill was introduced. Copies of the bill were not available to committee members until 15 minutes before the meeting. No subcommittee hearing was scheduled. The full committee could not begin until 10:40 a.m.—the Housing Subcommittee had a previously scheduled hearing at the regular meeting time of 10 a.m.

Only two witnesses, both administration officials, were called. No member was permitted more than 5 minutes for interrogation. Many members were not allowed to complete their questioning.

The committee adjourned at 11:55 a.m. and resumed the hearing at about 2:15 p.m.

At about 3 o'clock, the same day, a majority of the committee voted to close the hearing, excuse the witnesses, dismiss the public and the press, meet in executive session and vote out the bill. Four simple amendments were accepted without debate and the bill was passed in about 5 minutes.

Our committee spent 2 hours and 22 minutes on the bill. No general bill has received less attention or consideration by our committee. Maybe no bill has received less time or study by any committee of Congress.

The chairman took votes. He was prepared. He had proxies for all absent majority members. The ranking minority member had no valid proxies because he could have had no idea that such an important bill, or any bill, would ever be voted out with so little consideration.

Again the Banking and Currency Committee has degraded itself and demeaned the legislative process, and the Congress. The parliamentary system has been flagrantly abused. Our committee has disdained debate and deliberation. A majoritarian device has been arrogantly applied: "We have the votes, so why deliberate?" Few would believe a once facetious cliché has been given brutal currency:

My mind has been made up for me, so don't confuse me with the facts.

The majority had its orders, so why even listen to any other views.

Some committee members, who were voted in favor of the bill had not even read the bill. This makes a travesty of our committee rules and the quality of our legislative process.

A good bill can stand debate, deliberation, full inquiry. A bad bill cannot withstand the light of day, the scrutiny of interrogation, the crucible of debate, the floodlight of public opinion.

H.R. 14544 must be a very bad bill. It is being rammed through the committee and the Congress before even Members of Congress can understand it or evaluate the consequences. It must be forced through Congress before the taxpayer discovers the added costs. Enactment must be railroaded before the citizens realize that an enormous deficit is building because of the "guns and butter" spending extravagances of the administration. Enactment is urgent before the people of the United States discover that instead of a \$1.8 billion deficit which the President promised, we really have a \$6 billion, or more, deficit. The bill must be enacted hurriedly before the public discovers the budgetary ledger-dream.

The chairman likens this bill to emergency legislation during the great depression of 1933. The terrible consequences of extravagant Federal spending are obviously imminent. We all know this. The growing inflation is convincing evidence. But we should do the right things, forthrightly, openly, after thorough study, debate, and deliberation. Gimmicks and tricks, which only postpone proper and necessary action until after the election, should not be tolerated.

Congress has been criticized by the administration for taking the valuable time

of Cabinet members during committee interrogation. This charge is no longer valid. The Postmaster General of the United States sat through the entire morning session of the hearing on H.R. 14544 voluntarily. He is a very able, important, and overworked public official and our committee was highly honored that the Postmaster General would select our committee to audit.

But, inasmuch as neither witness even suggested that H.R. 14544 had any application to the Post Office Department, I think we can quite properly deduce that Mr. O'Brien had other, but very important, reasons for his keen interest in our committee and the passage of H.R. 14544.

The merits of every bill are important. But Members of Congress have a larger responsibility than any particular bill. We have an obligation to preserve sound parliamentary procedure, the committee system, and the right of the public to know fully about bills which we consider. We are not discharging our obligation. Our committee, the Congress, and the administration which is pressuring our committee to behave in this unseemly manner, will suffer and regret this scandalous performance.

No country or system can long tolerate an arrogance of power. A majority, no matter how great in numbers, will not survive if it cannot withstand the questions or ideas of the minority. Suppression of debates, ideas, or the free expression of opinion—whether by brute force of arms, or by denial of the basic parliamentary functions—will inexorably undermine the majority, the Congress, and the Nation.

May I suggest that, in spite of your orders, you study thoroughly H.R. 14544.

"THE WAY IS PLAIN, PEACEFUL, GENEROUS, JUST"

(Mr. FINDLEY asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. FINDLEY. Mr. Speaker, world problems mount rather than recede for the United States, despite our massive outpouring abroad of dollars, guns and troops.

To understand why this is so we must face the fact that empires directed from Europe are no more. Where once Britannia ruled the waves, and, in cooperation with other empires provided worldwide stability, now, to an uncomfortable extent, a power vacuum exists.

What will fill it? Will it be a tyrannical force like communism, already organized, disciplined and on the move?

Under Presidents Truman and Eisenhower a system of alliances was established in an effort to fill the vacuum. The alliances were intended to hold back the tide of tyranny and provide a stable situation in which liberty and justice could develop.

Today the alliances are a shambles. The United Nations has become merely a meeting place of nations—useful of course, but not capable of providing worldwide stability.

To an alarming degree the United States is trying to fill the power vacuum

alone. It is an unaccustomed role. The United States seeks no empire. Indeed in retrospect we must acknowledge that through the years many prominent Americans applauded the breakup of the old empires, and on occasion the policies of our Government hastened the process.

As the free world alliances have weakened and broken apart, our role as world policeman has become all the lonelier. This trend is alarming for several reasons.

First. It means our resources must necessarily be spread thinner in order to cover wider responsibilities.

Second. The fragmentation of the free world makes each part more vulnerable to aggressive forces—not only military but also economic.

Third. The experience may be so distressing and discouraging that the United States will return to a new form of isolation. The cost in blood and treasure is so great, and the burdens so unfairly distributed that the American people, in resentment over frustrations, may turn their backs on world responsibilities. That indeed would be a calamity for mankind of incalculable proportions.

To me, this is the most alarming aspect of our lonely role as world policeman.

Up to now, the experience certainly has not been gratifying.

Even at the present pace, our policies and programs are not measuring up to today's opportunity and challenge. The pace is apt to get worse.

In South Vietnam our continuing investment has brought little so far that is hopeful. The end to military action is nowhere in sight. As our commitment in troops rises, so apparently do the forces of aggression from the north and those of strife within the nation we seek to aid. One of the most distressing facts of the war is that we are receiving very little cooperation from other free nations. Only South Korea, Australia, and New Zealand have sent troops.

To the north Red China has already tested its own atomic bombs and in time is certain to advance in the development of nuclear weapons. Earlier this year our Secretary of Defense asked NATO nations what they will do about this rising danger. The question still echoes around, with no meaningful response, as does Secretary of State Rusk's request for greater allied assistance in Vietnam.

In Latin America the Alliance for Progress has lost its spark. The memory of our fumbling role in the Cuban invasion and our much-criticized action in the Dominican Republic lingers on, Communist subversives trained 90 miles off the U.S. coast in Cuba play effectively the old themes of Yankee imperialism, dollar diplomacy, and gunboat diplomacy.

In the North Atlantic Community things go from bad to worse. Powerful tides of change are rising and up to now our response has been uncreative, essentially negative, and defensive, and often petty and childish. After several years of complaint and warning, France has moved to free itself from the NATO military organization and the organization itself from French soil. Although the other 13 nations in the alliance have ex-

pressed solidarity with the United States in the face of French action, the solidarity is thin in spots.

The tides of change flow in other capitals as well as in Paris. West Germany grows more and more restive under the "special status" which amounts to second-class membership and may seek a more independent role if France attempts, as expected, to negotiate with the Soviet Union some sort of arrangement involving longterm West German interests. Turkey is resentful over a series of events—U.S. withdrawal of missiles as part of the Soviet-United States deal which followed the Cuban confrontation in 1962, U.S. policy on Cyprus in 1964 and our warning to Turkey at that time—a warning which amounted to a qualification of our commitment under the NATO treaty to respond automatically in the event Turkey was attacked by Russia.

Part of the difficulty in Western Europe arises from U.S. neglect of its responsibilities as the ex officio leader of NATO, and its failure to recognize and adjust to the vast changes which have occurred in the Atlantic Community since the Atlantic treaty was adopted in 1949.

It was inevitable at the outset that the United States provide the leadership and the resources in the alliance. Western Europe was ravaged by war and struggling to rebuild. Now, although the possibility of Soviet attack remains, the situation otherwise is substantially changed. The nations of Europe have rebuilt their economies. They are able to take a larger responsibility in the alliance and want a larger voice in vital life-and-death decisions.

The United States has acted, however, as if nothing has changed. We have taken NATO for granted, and assumed the status quo will continue. We have taken no significant steps to alter and improve military structure which today—as was true in 1949—forces our allies to rely under all circumstances upon U.S. strategic weapons and decisions for the most basic requirements of their national security.

Many Americans will be astonished to learn that throughout NATO's entire 17 years U.S. officers have always held the two supreme command posts. Of the 10 principal subordinate commands, French officers have never held more than 1. United Kingdom officers have always held six and the United States the remaining three. Officers of Belgium, the Netherlands, Denmark, Norway, Luxembourg, West Germany, Italy, Portugal, Canada, Turkey, and Greece have never held a principal command position and do not now. Iceland, the other member of NATO, has no national military force.

On September 9 De Gaulle warned that France will "end the subordination which is described as integration"—at the very latest—when the North Atlantic Treaty reaches its 20th year in 1969.

This was widely presented in the United States as a rejection of any Atlantic integration, although the French President stressed that his objection was to the present form of integration which

S. 3283

IN THE SENATE OF THE UNITED STATES

January 1907

Report of the Committee on Finance, United States Senate,
on the bill, S. 3283, to amend the act of March 3, 1879,
entitled "An Act to provide for the redemption of the
United States currency."

A BILL

to amend the act of March 3, 1879, entitled "An Act to provide for the redemption of the United States currency," and for other purposes.

Enacted at Washington, D. C., on January 19, 1907.

89TH CONGRESS
2D SESSION

S. 3283

IN THE SENATE OF THE UNITED STATES

APRIL 27, 1966

Mr. MUSKIE introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the “Participation Sales Act
4 of 1966”.

5 SEC. 2. (a) Section 302 (c) of the Federal National
6 Mortgage Association Charter Act is amended—

7 (1) by inserting “(1)” immediately following
8 “ (c) ”;

9 (2) by inserting after “undertakings and activities”

1 a comma and "hereinafter in this subsection called
2 'trusts','";

3 (3) by striking out the words "offered to it by the
4 Housing and Home Finance Agency or its Adminis-
5 trator, or by such Agency's constituent units or agencies
6 or the heads thereof, or any first mortgages in which
7 the United States or any agency" in the first sentence
8 thereof and by inserting "and other types of securities,
9 including any instrument commonly known as a secu-
10 rity, hereinafter in this subsection called 'obligations,'
11 in which the United States or any executive department,
12 agency,";

13 (4) by striking out the third sentence thereof and
14 substituting therefor the following: "Participations or
15 other instruments issued by the Association pursuant to
16 this subsection shall to the same extent as securities
17 which are direct obligations of or obligations guaranteed
18 as to principal or interest by the United States be deemed
19 to be exempt securities within the meaning of laws
20 administered by the Securities and Exchange Commis-
21 sion."; and

22 (5) by striking out the fourth sentence thereof.

23 (b) Section 302 (c) of such Act is further amended by
24 adding the following:

25 "(2) Subject to the limitations provided in paragraph

(4) of this subsection, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the "trustor", is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: *Provided*, That the trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided

1 in the instrument creating the trust. The trust instrument
2 shall provide that the trustee will promptly pay to the
3 trustor the full net proceeds of any sale of beneficial interests
4 or participations to the extent they are based upon such
5 obligations or collections. Such proceeds shall be dealt
6 with as otherwise provided by law for sales or repayment of
7 such obligations. The effect of both past and future sales
8 of any issue of beneficial interests or participations shall be
9 the same, to the extent of the principal of such issue, as
10 the direct sale of the obligations subject to the trust. Any
11 trustor creating a trust or trusts hereunder is authorized to
12 purchase, through the facilities of the trustee, outstanding
13 beneficial interests or participations to the extent of the
14 amount of his responsibility to the trustee on beneficial
15 interests or participations outstanding, and to pay his proper
16 share of the costs and expenses incurred by the Associa-
17 tion as trustee pursuant to the trust instrument, and for
18 these purposes may use any appropriated funds or other
19 amounts available to him for the general purposes or pro-
20 grams to which the obligations subjected to the trust are
21 related.

22 “(3) When any trustor guarantees to the trustee the
23 timely payment of obligations he subjects to a trust pur-
24 suant to this subsection, and it becomes necessary for such
25 trustor to meet his responsibilities under such guaranty, he

1 is authorized to fulfill such guaranty by using any appro-
2 priated funds or other amounts available to him for the
3 general purposes or programs to which the obligations sub-
4 jected to the trust are related.

5 “(4) Beneficial interests or participations shall not be
6 issued for the account of any trustor in an aggregate princi-
7 pal amount greater than is authorized with respect to such
8 trustor in an appropriation Act. Any such authorization
9 shall remain available until used.

10 “(5) The Association, as trustee, is authorized to issue
11 and sell beneficial interests or participations under this sub-
12 section, notwithstanding that there may be an insufficiency
13 in aggregate receipts from obligations subject to the related
14 trust to provide for the payment by the trustee (on a timely
15 basis out of current receipts or otherwise) of all interest or
16 principal on such interests or participations (after provision
17 for all costs and expenses incurred by the trustee, fairly
18 prorated among trustors). Whenever the issuance of an
19 aggregate principal amount is authorized pursuant to para-
20 graph (4) of this subsection, such an authorization in an
21 appropriation Act shall establish on the books of the Treas-
22 ury as appropriations such sums as may be necessary from
23 time to time to enable the trustor to pay the trustee such
24 insufficiency as the trustee may require on account of out-

1 standing beneficial interests or participations. Such trustor
2 shall make timely payments to the trustee from such appro-
3 priations, subject to and in accord with the trust instrument.”

4 SEC. 3. (a) Section 305(c) of the Federal National
5 Mortgage Association Charter Act is amended by deleting
6 “by \$450,000,000 on July 1, 1966,”.

7 (b) Section 401(d) of the Housing Act of 1950 is
8 amended by deleting “1968:” immediately preceding the
9 first proviso and by substituting therefor “1965, and 1967
10 and 1968:”.

11 SEC. 4. (a) Section 303(c) of title III of the Higher
12 Education Facilities Act of 1963 is amended by striking out
13 the first nine words in the second sentence and substituting
14 therefor the following: “For the purpose of making pay-
15 ments into the fund established under section 305”.

16 (b) Title III of the Higher Education Facilities Act
17 of 1963 is further amended by adding after section 304 the
18 following new section:

19 “REVOLVING LOAN FUND

20 “SEC. 305. (a) There is hereby created within the
21 Treasury a separate fund for higher education academic
22 facilities loans (hereafter in this section called “the fund”)
23 which shall be available to the Commissioner without fiscal-
24 year limitation as a revolving fund for the purposes of this
25 title. The total of any loans made from the fund in any

1 fiscal year shall not exceed limitations specified in appropria-
2 tion Acts.

3 “(b) (1) The Commissioner is authorized to transfer
4 to the fund available appropriations provided under section
5 303(c) to provide capital for the fund. All amounts
6 received by the Commissioner as interest payments or
7 repayments of principal on loans, and any other moneys,
8 property, or assets derived by him from his operations in
9 connection with this title, including any moneys derived
10 directly or indirectly from the sale of assets, or beneficial
11 interests or participations in assets, of the fund, shall be
12 deposited in the fund.

13 “(2) All loans, expenses, and payments pursuant to
14 operations of the Commissioner under this title shall be paid
15 from the fund, including (but not limited to) expenses and
16 payments of the Commissioner in connection with the sale,
17 under section 302(c) of the Federal National Mortgage
18 Association Charter Act, of participations in obligations
19 acquired under this title. From time to time and at least
20 at the close of each fiscal year, the Commissioner shall pay
21 from the fund into the Treasury as miscellaneous receipts in-
22 terest on the cumulative amount of appropriations paid out
23 for loans under this title or available as capital to the fund,
24 less the average undisbursed cash balance in the fund during
25 the year. The rate of such interest shall be determined

1 by the Secretary of the Treasury, taking into consideration
2 the average market yield during the month preceding such
3 fiscal year on outstanding Treasury obligations of maturity
4 comparable to the average maturity of loans made from the
5 fund. Interest payments may be deferred with the approval
6 of the Secretary of the Treasury, but any interest payments
7 so deferred shall themselves bear interest. If at any time
8 the Commissioner determines that moneys in the fund exceed
9 the present and any reasonably prospective future require-
10 ments of the fund, such excess may be transferred to the
11 general fund of the Treasury.”

12 SEC. 5. Section 338 (c) of the Consolidated Farmers
13 Home Administration Act of 1961 is amended by striking in
14 the second sentence “and (8)” and inserting in lieu thereof
15 “(8) section 8 of the Watershed Protection and Flood Pre-
16 vention Act, as amended (16 U.S.C. 1006a) ; (9) section
17 32 (e) of the Bankhead-Jones Farm Tenant Act, as amended
18 (7 U.S.C. 1011) ; and (10)” ; and by inserting in the fifth
19 sentence after “title,” the following: “section 8 of the Water-
20 shed Protection and Flood Prevention Act, as amended, and
21 section 32 (e) of the Bankhead-Jones Farm Tenant Act, as
22 amended,”.

23 SEC. 6. Nothing in this Act shall be construed to repeal
24 or modify the provisions of section 1820 (e) of title 38,

1 United States Code, respecting the authority of the Adminis-
2 trator of Veterans' Affairs.

3 SEC. 7. Paragraph (7) of section 8 of the Federal
4 Credit Union Act (12 U.S.C. 1757) is amended to read:

5 " (7) to invest its funds (A) in loans exclusively to
6 members; (B) in obligations of the United States of
7 America, or securities fully guaranteed as to principal
8 and interest thereby; (C) in accordance with rules and
9 regulations prescribed by the Director, in loans to other
10 credit unions in the total amount not exceeding 25 per
11 centum of its paid-in and unimpaired capital and sur-
12 plus; (D) in shares or accounts of savings and loan
13 associations, the accounts of which are insured by the
14 Federal Savings and Loan Insurance Corporation; (E)
15 in obligations issued by banks for cooperatives, Federal
16 land banks, Federal intermediate credit banks, Federal
17 home loan banks, the Federal Home Loan Bank Board,
18 or any corporation designated in section 101 of the
19 Government Corporation Control Act as a wholly owned
20 Government corporation; or in obligations, participa-
21 tions, or other instruments of or issued by, or fully
22 guaranteed as to principal and interest by, the Federal
23 National Mortgage Association; or (F) in participation
24 certificates evidencing beneficial interests in obligations,

1 or in the right to receive interest and principal collections
2 therefrom, which obligations have been subjected by one
3 or more Government agencies to a trust or trusts for
4 which any executive department, agency, or instrumen-
5 tality of the United States (or the head thereof) has
6 been named to act as trustee;”

7 SEC. 8. The Secretary of the Treasury, in consultation
8 with heads of agencies of the United States carrying on
9 direct loan programs, shall conduct a study, in such manner
10 as he shall determine, on the feasibility, advantages, and
11 disadvantages of direct loan programs compared to guaran-
12 teed or insured loan programs and shall report his findings
13 together with specific legislative proposals to the Congress
14 not later than six months after the effective date of this
15 Act. There are authorized to be appropriated such sums
16 as necessary for the purpose of this section.

17 SEC. 9. The Federal National Mortgage Association is
18 authorized during fiscal year 1966 to sell (1) additional
19 participations in the Government Mortgage Liquidation
20 Trust, and (2) participations in a trust to be established by
21 the Small Business Administration, each without regard
22 to the provisions of paragraph (4) of section 302(c) of
23 the Federal National Mortgage Association Charter Act,
24 as added by this Act.

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

By Mr. MUSKIE

APRIL 27, 1966

Read twice and referred to the Committee on
Banking and Currency

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued April 29, 1966
For actions of April 28, 1966
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Cattle hides.....15,22	Investigation.....31	School lunch.....18,24
Cheese.....13	Legislative program.....9	School milk.....12,18,24
Community development....4	Loan pools.....11,20	Transportation.....6
Conservation.....25	Manpower.....28	Water pollution.....14
Daylight time.....21	Milk.....12,18,24	Wheat.....26
Employment.....32	Opinion poll.....27	

HIGHLIGHTS: House passed dog-cat handling bill. Senate committee reported participation sales bill.

HOUSE

1. ANIMAL RESEARCH. Passed, 352-10, as reported, H. R. 13881, to authorize this Department to regulate the transportation, sale, and handling of dogs, cats, and other animals intended to be used for research. pp. 8772-96, 8832
2. PUBLIC LAW 480. Rep. Findley defended his amendment to the agricultural appropriation bill, stating that Poland is shipping goods to North Vietnam while seeking aid under Public Law 480. p. 8772

3. FARM PRICES. Rep. Skubitz claimed farm prices, particularly livestock, are lower while food prices are higher, and blamed this Department and Secretary Freeman for the situation. pp. 8834-5
Rep. Hansen, Iowa, inserted an article claiming that farm prices are not too high. p. 8860
4. COMMUNITY DEVELOPMENT; APPROPRIATIONS. Rep. Callan spoke in support of the budget item for the Rural Community Development Service. pp. 8855-6
5. APPROPRIATIONS. Rep. Arends accused the President of "fiscal chicanery" in asking that Congress hold down appropriations. p. 8774
The Appropriations Committee reported H. R. 14745, the Labor and HEW appropriation bill (H. Rept. 1464). p. 8862
6. TRANSPORTATION. The Rules Committee reported a resolution for consideration of S. 1098, to authorize ICC to set rates of pay for use of freight cars so as to encourage the acquisition and maintenance of a car supply adequate to meet the needs. p. 8862
Rep. McEwen inserted Rep. Cramer's testimony recommending amendments to H. R. 13200, to establish a Department of Transportation. pp. 8827-9
7. FORAGE RESEARCH. Rep. Cabell inserted Rep. Poage's statement favoring establishment of a forage-research facility. pp. 8856-7
8. INTERGOVERNMENTAL RELATIONS. The Government Operations Committee submitted a report, "Advisory Commission on Intergovernmental Relations: The First Five Years" (H. Rept. 1457). p. 8862
9. LEGISLATIVE PROGRAM. Rep. Albert announced the program for next week: Mon., Consent Calendar; Tues., Private Calendar; Wed. and rest of week, Labor-HEW appropriation bill, sales participation bill, SBA loan pools, etc. p. 8774
10. ADJOURNED until Mon., May 2, p. 8862

SENATE

11. PARTICIPATION SALES. The Banking and Currency Committee reported without amendment S. 3283, to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies (S. Rept. 1140). p. 8866
12. SCHOOL MILK. Sen. Proxmire commended House action in restoring the school milk funds and urged an increase over last year's levels. p. 8887
13. FARM PROGRAM. Sen. Proxmire stated "the farmer--even the relatively successful farmer--has been and still is being left out of our prosperity." p. 8890
Sen. Mundt spoke against the suggested increase in import quotas for Cheddar cheese stating that it would not achieve parity prices for farmers. pp. 8917-18
14. WATER POLLUTION. Sen. Young, Ohio, discussed the pollution problem of Lake Erie and urged State and local governments to make a serious breakthrough in controlling pollution of their water supplies. pp. 8896-7

PARTICIPATION SALES ACT OF 1966

APRIL 28, 1966.—Ordered to be printed

Mr. MUSKIE, from the Committee on Banking and Currency, submitted the following

REPORT

TOGETHER WITH COMBINED AND INDIVIDUAL VIEWS

[To accompany S. 3283]

The Committee on Banking and Currency, to which was referred the bill (S. 3283) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

PURPOSE OF THE LEGISLATION

S. 3283 will permit the Federal National Mortgage Association, as trustee, to sell to investors participation certificates based on a pool or pools of notes or other obligations representing loans made or otherwise acquired by Federal credit agencies. Sales of participation certificates on behalf of any agency must be specifically approved in advance in an appropriation act.

Funds obtained from the sale of such participation certificates would be available to the respective agencies to meet loan demands to the extent of their authorized lending limits and any amounts not currently so used would reduce their outstanding borrowings or advances from the U.S. Treasury.

BACKGROUND OF LEGISLATION

For many years the Federal Government has followed policies of providing credits to private borrowers for particular purposes or to stimulate lending by guaranteeing or insuring loans made by private lenders. Government funds are supplied through agencies set up to make direct loans for specific purposes or to acquire loans made by

private lenders. These credit programs are designed to provide or stimulate types of credit not otherwise generally available to important groups of borrowers.

The outstanding amount of loans held by Federal credit agencies exceeds \$30 billion. On occasion in order to obtain funds for the purpose of making loans, the lending agencies have sold loans or participations in them to private lenders and investors. Direct sales and sales of participations totaled nearly \$1.6 billion in fiscal year 1965, and it is estimated that under existing programs nearly \$3 billion might be sold in fiscal year 1966 and about \$1.9 billion in fiscal year 1967. Under new legislation, an additional \$3.2 billion of participations are expected to be sold by the end of fiscal year 1967, including \$350 million of SBA participations that may be sold before June 30, 1966.

GENERAL STATEMENT

It is the committee's hope that the programs which S. 3283 would authorize would be a major step in a shift from public to private financing of governmentally sponsored credit programs. Home financing through the Federal Housing Administration, where purely private financing is encouraged and supported by Government agency insurance, is one of the prime examples of the sort of Federal assistance to private activities the committee has in mind. Only last year the committee, in the Housing and Urban Development Act of 1965, took a significant step in this direction by authorizing the Secretary of Agriculture to start a new rural housing insurance program under which the Secretary would insure private loans on rural housing, with the thought that it would replace the former direct loan program. The SBA and the Export-Import Bank have for years been selling individual loans to private purchasers with or without recourse. These agencies have also been encouraging participation by private lenders in direct loans made by them, either on an equal basis or on a preferred basis. The Export-Import Bank has been selling participations in pools of its own loans.

The new program under S. 3283 will give private investors additional experience with the obligations under these Government credit programs. This experience should in the course of time lead to more extensive reliance on private sources of credit.

The immediate effect of this legislation will make it possible to obtain funds for the extension of credit under Federal credit programs. To the extent such funds are not immediately required for the specific credit programs, they will reduce the aggregate borrowing requirements of the Treasury. Under this legislation, issues of participation certificates based on assets of any particular agency must be limited to specific amounts authorized in appropriation acts. Amounts that may be used by the agencies in extending further credits during any year, moreover, are usually limited by specific provisions. In short, the Congress clearly retains complete control over the aggregate amount of participations they may be offered for any agency.

Disbursements on new loans made under major Federal credit programs in fiscal year 1966 are expected to be almost equaled by sales and other repayments. During fiscal year 1967, net proceeds of over \$2 billion are anticipated. These receipts would serve as a source of funds for financing part of the net deficit anticipated in other Federal budgetary receipts and expenditures.

Sale of these participations would thus reduce the amount of direct Government obligations that would have to be offered. Under prevailing conditions in credit markets, with pressures of strong demands for credit—public and private—relative to the supply of savings available for lending, interest rates have risen substantially. At the prevailing level of interest rates, it would not be possible for the Federal Government to sell long-term direct obligations except at interest rates above the $4\frac{1}{4}$ -percent ceiling established by existing law. Since borrowing needs of the Government are expected to be large in the year ahead, concentration of borrowing in the short-term area could cause a further rise in interest rates in that sector. I would also increase the volume of liquid assets in the economy and contribute to inflationary pressures.

Adoption of the proposed legislation would give an added measure of flexibility by making it possible to sell securities on terms that would attract savings and other long-term funds available for investment—particularly from investment institutions, and reduce or eliminate the amount of Treasury financing through the banking system.

The committee expects that FNMA, in issuing participation certificates under S. 3283, would continue its existing practice of selling to major investors—insurance companies, banks, pension trusts, and the like, and that FNMA will issue participation certificates of types appropriate for such investors. Also the authorization in an appropriation act for the sale of participation certificates will establish on the books of the Treasury as appropriations such sums as may be necessary to enable the trustor—the Federal lending agency—to pay the trustee—FNMA—such insufficiency as may occur as, for example, if the interest paid on the participation certificates exceeds the interest received on the underlying obligations.

It is recognized that for various reasons interest rates paid on the participation certificates are likely to be somewhat higher than rates that would need to be paid on direct Treasury obligations of similar maturities. Under existing conditions, however, interest yields on longer term issues are actually somewhat lower than those on issues with maturities of 5 years or less. It is highly conjectural, therefore, to attempt to estimate the net effect of any differences in interest costs that might result from one means of financing as against another.

The underlying obligations will be guaranteed by the agency establishing the trust, and timely payments of principal and interest on the certificates will be guaranteed by FNMA. FNMA's guarantee in turn is supported by borrowing authority from the U.S. Treasury.

Although the participation certificates will not be full faith and credit obligations of the United States, as a practical matter the moral obligation of the Government to back up these participation certificates is entirely clear. Because they are not Government obligations, they will be subject to State taxation, including State income taxes. They will be eligible securities to support Federal Government deposits. Since they are not Government obligations, they will not be subject to the Federal debt ceiling, and they will not be subject to the $4\frac{1}{4}$ -percent interest ceiling on Government bonds of 5 years or more.

The letter from the Budget Bureau printed below is made a part of this report:

BUREAU OF THE BUDGET,
Washington, D.C., April 29, 1966.

HON. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: You have inquired whether there is any intention on the part of the administration to seek the congressional authorization which would be required to include any rural electrification or telephone loans in participation pools established under the provisions of the "Participation Sales Act of 1966."

As you know, the President has proposed legislation to establish Federal banks for rural electrification and telephone systems in order to provide supplementary financing for the Rural Electrification Administration program. We believe that favorable congressional action on this proposed legislation will assure a fully adequate supply of credit to meet the needs of rural electric and telephone cooperatives.

I can assure you that in no event under the legislation now before your committee will any participations be sold in any REA loans.

Sincerely yours,

CHARLES L. SCHULTZE,
Director, Bureau of the Budget.

SECTION-BY-SECTION ANALYSIS OF H.R. 14544

Section 1. Short title

The bill would be cited as the "Participation Sales Act of 1966."

Section 2. Amendments to section 302(c) of the Federal National Mortgage Association Charter Act

Subsection (a) would amend existing section 302(c) of the Federal National Mortgage Association Charter Act to accommodate the provisions of new paragraphs (2), (3), and (4). The first and second amendments are technical. The purpose of the third amendment is to qualify for inclusion in participation trusts, securities held by various Government agencies even though they may not be within the technical definition of obligations. The fourth amendment would exempt participation certificates issued pursuant to this act from all regulation by the Securities and Exchange Commission. The fifth amendment would repeal the existing authority for appropriations to offset differentials arising from the issuance of participations based on below-market interest rate mortgages insured under section 221(d)(3) of the National Housing Act; this repeal is appropriate because of substitute arrangements provided in subsection (b) of section 2 of the bill.

Subsection (b) would add new paragraphs (2), (3), and (4), to section 302(c) of the FNMA Charter Act. New paragraph (2) would authorize the head of any executive department, agency, or instrumentality of the United States to set aside a part or all of any financial assets held by him, subject them to trust or trusts, and require him to guarantee to the trustee the timely payment of principal and interest on the assets so set aside. Under the trust instrument

FNMA would act as trustee, and title to the obligations so set aside would be deemed to have passed to FNMA in trust. The custody, control, and administration of the obligations, however, would remain in the trustor, subject to transfer to the trustee in event of default in the payment of principal and interest of the related participation certificates issued by the trustee. The trust instrument would require the trustee to pay promptly to the trustor the full net proceeds of any sale of participations, and require the trustor to treat the proceeds as otherwise provided by the law for direct sales or repayments of such obligations. To facilitate liquidation of assets, because of prepayments or defaults and to release assets for direct sale, any trustor would be authorized, through the facilities of the trustee, to acquire outstanding participations to the extent of his responsibility to the trustee. Any trustor would also be authorized to pay his proper share of the costs and expenses incurred by the trustee. In contrast to the approach of the 1964 legislation on this subject, the trust or trusts to be created under this legislation, as well as the trusts created under the 1964 legislation from now on, are to be categorized for tax purposes as associations taxable as corporations, and not as true trusts. However, a special exemption is provided so that their interest income will not be subject to tax. Since these trusts are associations taxable as corporations and exempt from tax, any income received by participation holders will be fully taxable. Because the trusts are not themselves taxable, the dividends received by corporate participation purchasers will not be eligible under the Internal Revenue Code for the 85-percent dividends received deduction, or, in the case of individuals, the \$100 dividend exclusion.

New paragraph (3) would authorize any trustor to fulfill his guarantee of the timely payment of obligations subjected to a trust by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

New paragraph (4) would require that before any given amount of beneficial interests could be issued for the account of any trustor (that is, before participations could be issued which would provide the given amount of funds for the given agency) approval for the issuance of that amount for the account of that agency would have to be granted in an appropriation act.

New paragraph (5) would expressly authorize FNMA as trustee to issue and sell participations even if the aggregate receipts from obligations subject to the related trust are insufficient to permit the payment by the trustee of all interest or principal on the participations. The authorization pursuant to paragraph (4) would under the provisions of paragraph (5) create an appropriation account on the books of the Treasury to pay any difference between the receipts of the trustor (the agency) from the obligations in the pool and the amount chargeable to that agency which the trustee (FNMA) would be obligated to pay to the holders of the beneficial interests or participations. The trustor would be required to make timely payments to the trustee from such appropriations. Thus, purchasers of participations would be assured of timely payments of principal and interest without further action by the Congress.

Section 3. Reductions in new obligational authority

Subsection (a) amends section 305(c) of the FNMA Charter Act by reducing by \$450 million the aggregate potential authority of FNMA to purchase mortgages under its special assistance functions.

Subsection (b) would amend section 401(d) of the Housing Act of 1950 by reducing by \$300 million the borrowing authority of the college housing loan program. Both reductions are made possible by increased sales of participation certificates in existing loans.

Section 3 of the bill would have the effect of repealing provisions of law enacted in 1965 under which, on July 1, 1966, (1) FNMA's dollar authority to own mortgages under its special assistance functions would be increased by \$450 million, and (2) the authority of the Secretary of Housing and Urban Development to borrow from the Treasury for college housing loans would be increased by \$300 million. This avoidance of increases of dollar authorities aggregating \$750 million would be made possible by the reported bill. Your Banking and Currency Committee has been assured that existing plans contemplate the issuance and sale of participations in needed compensating amounts during the fiscal year commencing July 1, 1966.

Specifically, as regards college housing loans, subsection (b) of section 3 of H.R. 14544 would amend section 410(d) of the Housing Act of 1950, as amended (12 U.S.C. 1749), by reducing by \$300 million the borrowing authority of the college housing loan program.

The Housing Act of 1950 authorizes direct loans to higher educational institutions to assist them in providing housing and related facilities for students and faculty and to hospitals for housing facilities for student nurses and interns.

The Treasury borrowing authorization which funds the program is \$3,175 million and will increase by \$300 million to \$3,475 million in fiscal 1967 under current statute. The proposed participation sales of \$820 million of college housing loans in fiscal 1967 permits canceling the \$300 million of new obligational authority, which otherwise would become available in 1967, without interfering with program activity which is projected at \$300 million of net loan reservations in fiscal 1967. The net effect of the participation sale will be to increase the obligational authority by \$801 million after adjustment for reductions in loan repayment receipts and administrative expenses of FNMA.

Section 4. Office of Education revolving loan fund provisions

Subsection (a) of this section would amend section 303(c) of the Higher Education Facilities Act of 1963 to provide that appropriations for making academic facility loans would now be payable into the fund to be established by subsection (b) of this section.

Subsection (b) would add a new section 305 to the Higher Education Facilities Act of 1963 establishing a separate revolving fund for higher education academic facilities loans, available without fiscal year limitation. The total of new loans made from the fund in any fiscal year would be subject to limitations specified in appropriation acts. All appropriations available for academic facilities loans and all receipts from operations and from participation sales would be deposited in the fund. All loans, expenses, and payments would be paid from the fund, including expenses and payments to the Federal National Mortgage Association in connection with the sale of participations. The Commissioner would be required to pay from the fund into the

Treasury interest on the net amount of appropriations used by the fund.

Section 5. Farmers Home Administration direct loan account provisions

Section 5 would amend section 338(c) of the Consolidated Farmers Home Administration Act of 1961 to transfer to the direct loan account Watershed protection and flood prevention loans, rural renewal loans, and resource conservation and development loans not now financed through revolving funds. The intent is to include among the loans eligible for pooling under section 2 all loans made by the Farmers Home Administration (including not only those in the direct loan account, but also those in the emergency credit revolving fund, rural housing direct loan account, agricultural credit insurance fund and the rural housing insurance fund).

Section 6. Preservation of existing Veterans' Administration authority

Section 6 would make clear that nothing contained in this bill should be construed to repeal or modify the existing authority of the Administrator of Veterans' Affairs to enter into trust arrangements comparable to those contemplated by this bill. The intent of this section would be to authorize the Administrator of Veterans' Affairs to enter into trust arrangements either under the provisions of this bill or under the provisions of section 1820(e) of title 38 United States Code.

Section 7. Investment by credit unions

Section 7 would authorize Federal credit unions to invest their funds in the type of participations or beneficial interests authorized under the bill to be issued by FNMA.

Section 8. Study of direct loan programs

Section 8 would require the Secretary of the Treasury to study the advantages and disadvantages of direct loan programs compared to insured or guaranteed programs and to report to the Congress. Necessary appropriations are authorized.

Section 9. Sales during fiscal 1966

Section 9 would permit FNMA during fiscal year 1966 to sell participation certificates issued under the existing government mortgage liquidation trust, and also certificates issued under a trust to be established by the SBA, without regard to the appropriation act authority for sales required by paragraph 4 of section 302(c) of the FNMA Charter Act as added by the bill.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill as reported are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

Sections 302(c) and 305(c) of the Federal National Mortgage Association Charter Act

TITLE III—FEDERAL NATIONAL MORTGAGE ASSOCIATION

* * * * *

CREATION OF ASSOCIATION

SEC. 302. (a) * * *

* * * * *

(c) (1) Notwithstanding any other provision of this Act or of any other law, the Association is authorized under section 306 to create, accept, execute, and otherwise administer in all respects such trusts, receiverships, conservatorships, liquidating or other agencies, or other fiduciary and representative undertakings and activities, *hereinafter in this subsection called "trusts"*, as might be appropriate for financing purposes; and in relation thereto the Association may acquire, hold and manage, dispose of, and otherwise deal in any obligations [offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency] *and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called "obligations," in which the United States or any executive department, agency, or instrumentality thereof may have a financial interest.* The Association may join in any such undertakings and activities notwithstanding that it is also serving in a fiduciary or representative capacity; and is authorized, consistent with section 307, to guarantee any participations or other instruments, whether evidence of property rights or debt, issued for such financing purposes. [Any participations or other instruments so guaranteed shall to the same extent as securities issued or guaranteed by the United States or its instrumentalities be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission.] *Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission.* [If there shall be included within one or more of the trusts or other agencies created pursuant to the authority of this subsection any mortgages bearing a below-market interest rate and insured under section 221(d) (3) after the date of the enactment of the Housing and Urban Development Act of 1965, there are authorized to be appropriated from time to time such amounts as may be necessary to reimburse the Association for the

amount of the differential (including interest, other costs, and a fair proportion of administrative expense) between (1) the total outlay with respect to outstanding participations or other instruments which, at the time of issuance, were predicated upon or otherwise related to such below-market interest rate mortgages, and (2) the total receipts from such mortgages.】 The amounts of any mortgages and other obligations acquired by the Association under section 306, pursuant to this subsection, shall not be included in the total amounts set forth in section 306(c).

(2) *Subject to the limitations provided in paragraph (4) of this subsection, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the "trustor", is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title of such: Provided, That obligations shall be deemed to have passed to the Association in trust: the trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.*

(3) *When any trustor guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.*

(4) *Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available until used.*¹

(5) *The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). Whenever the issuance of an aggregate principal amount is authorized pursuant to paragraph (4) of this subsection, such an authorization in an appropriation Act shall establish on the books of the Treasury as appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument.*

SPECIAL ASSISTANCE FUNCTIONS

SEC. 305. (a) * * *

(c) The total amount of purchases and commitments authorized by the President pursuant to subsection (a) of this section shall not exceed \$1,700,000,000 outstanding at any one time, which limit shall be increased by \$100,000,000 on the date of the enactment of the Housing and Urban Development Act of 1965, [by \$450,000,000 on July 1, 1966,] by \$550,000,000 on July 1, 1967, and by \$525,000,000 on July 1, 1968.

Section 401(d) of the Housing Act of 1950

(d) To obtain funds for loans under subsection (a) of this section, the Administrator may issue and have outstanding at any one time notes and obligations for purchase by the Secretary of the Treasury in an amount not to exceed \$1,675,000,000, which amount shall be increased by \$300,000,000 on July 1 in each of the years 1961 through [1968] 1965, and 1967 and 1968: *Provided*, That the amount outstanding for other educational facilities, as defined herein, shall not exceed \$175,000,000, which limit shall be increased by \$30,000,000 on July 1 in each of the years 1961 through 1968: *Provided further*, That the amount outstanding for hospitals, referred to in clause (2) of section 404 (b) of this title, shall not exceed \$100,000,000, which limit shall be increased by \$30,000,000 on July 1 in each of the years 1961 through 1968.

¹ See sec. 9 of S. 3283 printed below.

Title III of the Higher Education Facilities Act of 1963**TITLE III—LOANS FOR CONSTRUCTION OF ACADEMIC FACILITIES****LENDING AUTHORITY**

SEC. 301. The Commissioner may, in accordance with the provisions of this title, make loans to institutions of higher education or to higher education building agencies for construction of academic facilities.

LOAN LIMIT FOR ANY STATE

SEC. 302. Not more than 12½ per centum of the funds provided for in this title in the form of loans shall be used for loans to institutions of higher education or higher education building agencies within any one State.

ELIGIBILITY CONDITIONS, AMOUNTS, AND TERMS OF LOANS

SEC. 303. (a) No loan pursuant to this title shall be made unless the Commissioner finds (1) that not less than one-fourth of the development cost of the facility will be financed from non-Federal sources, (2) that the applicant is unable to secure the amount of such loan from other sources upon terms and conditions equally as favorable as the terms and conditions applicable to loans under this title, and (3) that the construction will be undertaken in an economical manner and that it will not be of elaborate or extravagant design or materials.

(b) A loan pursuant to this title shall be secured in such manner, and shall be repaid within such period not exceeding fifty years, as may be determined by the Commissioner; and shall bear interest at (1) a rate determined by the Commissioner which shall not be less than a per annum rate that is one-quarter of 1 percentage point above the average annual interest rate on all interest-bearing obligations of the United States forming a part of the public debt as computed at the end of the preceding fiscal year, adjusted to the nearest one-eighth of 1 per centum, or (2) the rate of 3 per centum per annum, whichever is the lesser.

(c) The Commissioner shall, during the fiscal year ending June 30, 1964, and each of the four succeeding fiscal years, make loans to institutions of higher education for the construction of academic facilities in accordance with the provisions of this title. **[For the purpose of making loans under this title]** *For the purpose of making payments into the fund established under section 305, there is hereby authorized to be appropriated the sum of \$120,000,000 for the fiscal year ending June 30, 1964, and each of the two succeeding fiscal years; but for the fiscal year ending June 30, 1967, and the succeeding fiscal year, only such sums may be appropriated as the Congress may hereafter authorize by law.* In addition to the sums authorized to be appropriated under the preceding sentence, there is hereby authorized to be appropriated for the fiscal year ending June 30, 1965, and the succeeding fiscal year, for making such loans the difference (if any) between the sums authorized to be appropriated under the preceding sentence for preceding fiscal years and the aggregate of the sums which

were appropriated for such preceding years under such sentence. Sums appropriated pursuant to this subsection for any fiscal year shall remain available for loan under this title until the end of the next succeeding fiscal year.

GENERAL PROVISIONS FOR LOAN PROGRAM

SEC. 304. (a) Such financial transactions of the Commissioner as the making of loans and vouchers approved by the Commissioner in connection with such financial transactions, except with respect to administrative expenses, shall be final and conclusive on all officers of the Government.

(b) The Commissioner is authorized (1) to prescribe a schedule of fees which, in his judgment, would be adequate in the aggregate to cover necessary expenses of making inspections (including audits) and providing representatives at the site of projects in connection with loans under this title, and (2) to condition the making of such loans on agreement by the applicant to pay such fees. For the purpose of providing such services, the Commissioner may, as authorized by section 402(b), utilize any agency, and such agency may accept reimbursement or payment for such services from such applicant or from the Commissioner, and shall, if a Federal agency, credit such amounts to the appropriation or fund against which expenditures by such agency for such services have been charged.

(c) In the performance of, and with respect to, the functions, powers, and duties vested in him by this title, the Commissioner may—

(1) prescribe such rules and regulations as may be necessary to carry out the purposes of this title;

(2) sue and be sued in any court of record of a State having general jurisdiction or in any district court of the United States, and such district courts shall have jurisdiction of civil actions arising under this title without regard to the amount in controversy, and any action instituted under this subsection by or against the Commissioner shall survive notwithstanding any change in the person occupying the office of Commissioner or any vacancy in such office; but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Commissioner or property under his control, and nothing herein shall be construed to except litigation arising out of activities under this title from the application of sections 507(b) and 2679 of title 28 of the United States Code and of section 367 of the Revised Statutes (5 U.S.C. 316);

(3) foreclose on any property or commence any action to protect or enforce any right conferred upon him by any law, contract, or other agreement, and bid for and purchase at any foreclosure or any other sale any property in connection with which he has made a loan pursuant to this title; and, in the event of any such acquisition (and notwithstanding any other provisions of law relating to the acquisition, handling, or disposal of real property by the United States), complete, administer, remodel and convert, dispose of, lease, and otherwise deal with such property: *Provided*, That any such acquisition of real property shall not deprive any State or political subdivision thereof of its civil or criminal jurisdiction in and over such property or impair the

civil rights under the State or local laws of the inhabitants on such property;

(4) sell or exchange at public or private sale, or lease, real or personal property, and sell or exchange any securities or obligations upon such terms as he may fix;

(5) subject to the specific limitations in this title, consent to the modification, with respect to the rate of interest, time of payment of any installment of principal or interest, security, or any other term of any contract or agreement to which he is a party or which has been transferred to him pursuant to this section; and

(6) include in any contract or instrument made pursuant to this title such other covenants, conditions, or provisions (including provisions designed to assure against use of the facility constructed, with the aid of a loan under this title, for purposes described in section 401(a)(2)) as he may deem necessary to assure that the purposes of this title will be achieved.

REVOLVING LOAN FUND

SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called "the fund") which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts.

(b) (1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding such fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury.

Section 338(c) of the Consolidated Farmers Home Administration Act of 1961

(c) The appropriation for loans made under the authority of subsection (a) and funds obtained in accordance with subsection (b) of this section, and the unexpended balances of any funds made available for loans under the item "Farmers Home Administration" in the Department of Agriculture Appropriation Act current on the date of enactment of this title, shall be merged into a single account known as the "Farmers Home Administration direct loan account", hereafter in this section called the "direct loan account". All claims, notes, mortgages, property, including those now held by the Secretary on behalf of the Secretary of the Treasury, and all collections therefrom, made or held under the direct loan provisions of (1) titles I, II, and IV of the Bankhead-Jones Farm Tenant Act, as amended; (2) the Farmers Home Administration Act of 1946, as amended, except the assets of the rural rehabilitation corporations; (3) the Act of August 28, 1937 (50 Stat. 869), as amended; (4) the item "Loans to Farmers—1948 Flood Damage" in the Act of June 25, 1948 (62 Stat. 1038); (5) the item "Loans to Farmers (Property Damage)" in the Act of May 24, 1949 (63 Stat. 82); (6) the Act of September 6, 1950 (64 Stat. 769); (7) the Act of July 11, 1956 (70 Stat. 525); [and](8) *section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a)*; (9) *section 32(a) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011)*; and (10) under this title shall be held for and deposited in said account.

The notes of the Secretary issued to the Secretary of the Treasury under said Acts or under this title and all other liabilities against the appropriations or assets in the direct loan account shall be liabilities of said account, and all other obligations against such appropriations or assets shall be obligations of said account. Moneys in the direct loan account shall also be available for interest and principal repayments on notes issued by the Secretary to the Secretary of the Treasury. Otherwise, the balances in said account shall remain available to the Secretary for direct loans under subtitles A and B of this title, *section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, amended, and* for advances in connection therewith, not to exceed any existing appropriation or authorization limitations and in such further amounts as the Congress from time to time determines in appropriation Acts. The amounts so authorized for loans and advances shall remain available until expended. Subject to the foregoing limitations, the use of collections deposited in the account may be authorized by the Congress in lieu or partially in lieu of authorizing the issuing of additional notes by the Secretary to the Secretary of the Treasury, and the account shall be budgeted on a net expenditure basis.

Section 8 of the Federal Credit Union Act (12 U.S.C. 1757)**POWERS**

SEC. 8. A Federal credit union shall have succession in its corporate name during its existence and shall have power—

(1) to make contracts;
(2) to sue and be sued;
(3) to adopt and use a common seal and alter the same at pleasure;

(4) to purchase, hold, and dispose of property necessary or incidental to its operations;

(5) to make loans with maturities not exceeding five years to its members for provident or productive purposes upon such terms and conditions as this Act and its bylaws provide and as the credit committee or a loan officer may approve, at rates of interest not exceeding 1 per centum per month on unpaid balances, inclusive of all charges incident to making the loan; except that no loans to a director or member of the supervisory or credit committee shall exceed the amount of his holdings in the Federal credit union as represented by shares thereof plus the total unencumbered and unpledged shareholdings in the Federal credit union of any member pledged as security for the obligation of such director or committee member. No director or member of the supervisory or credit committee shall endorse for borrowers. A borrower may repay his loan, prior to maturity, in whole or in part on any business day. The taking receiving, reserving, or charging of a rate of interest greater than is allowed by this paragraph, when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. If such greater rate of interest has been paid, the person by whom it has been paid, or his legal representatives, may recover back from the credit union taking or receiving the same, in an action in the nature of an action of debt, the entire amount of interest paid; but such action must be commenced within two years from the time the usurious collection was made. Loans shall be paid or amortized in accordance with rules and regulations prescribed by the Director after taking into account the needs or conditions of the borrowers, the amounts and duration of the loans, the interests of the members and the credit unions, and such other factors as the Director deems relevant, but such rules and regulations shall not require payments more frequently than annually;

(6) to receive from its members payments on shares;

(7) to invest its funds (A) in loans exclusively to members; (B) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; [or] (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit

banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Government corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;

(8) to make deposits in national banks and in State banks, trust companies, and mutual savings banks operating in accordance with the laws of the State in which the Federal credit union does business;

(9) to borrow, in accordance with such rules and regulations as may be prescribed by the Director, from any source, in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus: *Provided*, That any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital;

(10) to levy late charges, in accordance with the bylaws, for failure of members to meet promptly their obligations to the Federal credit union;

(11) to impress and enforce a lien upon the shares and dividends of any member, to the extent of any loan made to him and any dues or charges payable by him;

(12) in accordance with rules and regulations prescribed by the Director, to sell to members negotiable checks (including travelers checks) and money orders, and to cash checks and money orders for members, for a fee which does not exceed the direct and indirect costs incident to providing such service; and

(13) to exercise such incidental powers as shall be necessary or requisite to enable it to carry on effectively the business for which it is incorporated.

SECTION 9 OF S. 3283, 89TH CONGRESS

SEC. 9. The Federal National Mortgage Association is authorized during fiscal year 1966 to sell (1) additional participations in the Government Mortgage Liquidation Trust, and (2) participations in a trust to be established by the Small Business Administration, each without regard to the provisions of paragraph (4) of section 302(c) of the Federal National Mortgage Association Charter Act, as added by this Act.

COMBINED VIEWS OF SENATORS BENNETT, THURMOND, AND HICKENLOOPER

This committee has just reported out a legislative proposal that will make a permanent change in the financing of Federal Government expenses and less consideration than most people give to the purchasing of a secondhand car.

The haste with which the legislation was pushed through the committee gives one pause, since the transactions contemplated by the proposal are not scheduled to take place until sometime in the next fiscal year.

Proposal hurried through committee

If the administration desires to finance its operations through the sale of participation certificates, based on held assets, it is reasonable to request authority to do so from the Congress. It is equally as reasonable, however, for sufficient time to be given in order that the Congress may weigh the advantages and disadvantages of the method of financing. We feel that this has not been done.

It is our opinion that the sale of participations should be explained for exactly what it is—a method of borrowing from the private market in such a way that the borrowing will neither be part of the Federal debt nor be considered as part of the administrative budget deficit.

Instead, the major argument used in support of this legislation is that it is for the purpose of replacing Federal credit programs with private market credit. The claim if true would merit support of those who believe that Federal credit programs should encourage rather than displace private credit.

This bill will not result in a decline of federally sponsored, federally operated, and federally controlled lending programs. It will not result in a decline in the amount of loans held by the Federal Government, and it will not substitute private credit for Federal lending programs.

Includes all direct Federal loans

There are at the present time just over \$33 billion of Federal Government direct loans in the portfolios of the various Government entities. The following list shows the entities and the amount held by each:

Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program

[In millions of dollars]

Agency or program	1965 actual	
	Direct loans	Guaranteed and insured loans
A. MAJOR AGENCIES OR PROGRAMS		
Office of Economic Opportunity	17	
Department of Agriculture:		
Commodity Credit Corporation	2,115	419
Rural Electrification Administration	4,072	
Farmers Home Administration	1,990	727
Department of Commerce:		
Economic Development Administration	126	
Maritime Administration	109	419
Department of Defense: Military assistance credits	79	
Department of Health, Education, and Welfare:		
Office of Education	538	
Public Health Service	13	
Department of Housing and Urban Development:		
Federal National Mortgage Association	2,121	300
Federal Housing Administration	527	49,042
Public housing program	60	5,033
College housing program	1,927	
Urban renewal program	196	1,382
Other major programs	432	
Department of the Interior: Reclamation loans	90	
Department of State: Agency for International Development	8,997	144
Treasury Department:		
Loans to District of Columbia	139	
Foreign loans	3,763	
Veterans' Administration	1,649	30,951
Export-Import Bank of Washington	2,490	2,617
Small Business Administration	1,147	104
Total, major agencies or programs	32,507	91,138
B. OTHER AGENCIES OR PROGRAMS		
Department of Agriculture: Soil Conservation Service	15	
Department of Commerce: Aircraft loan guarantees		9
Department of Defense:		
Loans for construction of Ryukyu power system	9	
Defense production loans and guarantees	14	49
Department of Health, Education, and Welfare:		
Community facility loans	(1)	
Hospital construction activities	4	
Assistance to refugees in the United States	6	
Department of Housing and Urban Development:		
Urban mass transportation loans	2	
Liquidating programs (Community Facilities Administration)	13	
Community disposal program	4	
Department of the Interior:		
Alaska public works (repayable investment)	16	
Bureau of Indian Affairs	24	
Defense Production Act loans	8	
Fisheries loans	6	
Ship mortgage insurance		5
Guam rehabilitation program	2	
Minerals exploration program	1	
Department of Labor: Manpower development and training loans	(1)	
Department of State:		
Repatriation loans	3	
Loans to the United Nations	107	
Treasury Department:		
Defense Production Act loans (liquidating)	4	
Reconstruction Finance Corporation (liquidating)	5	
Civil defense loans	(1)	
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation fund	131	
General Services Administration:		
Public Works Administration bonds (liquidating)	58	
Surplus property sales credit	100	
Interstate Commerce Commission: Guaranteed railroad loans		214
National Capital Planning Commission: Advances to the District of Columbia and Maryland	(1)	

See footnotes at end of table, p. 19.

Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program—Continued

[In millions of dollars]

Agency or program	1965 actual	
	Direct loans	Guaranteed and insured loans
B. OTHER AGENCIES OR PROGRAMS—continued		
Veterans' Administration:		
Service disabled veterans fund.....	4	
Vocational rehabilitation fund.....	(1)	
Veterans special term insurance fund.....	5	
Veterans insurance and indemnities fund.....	1	
Veterans reopened insurance fund.....	(1)	
Total, other agencies or programs.....	547	276
All agencies.....	33,054	91,414

Less than \$1,000,000 outstanding.

NOTE.—Figures may not add due to rounding.

This legislation would enable all of these to enter into a trust agreement with the Federal National Mortgage Association whereby the FNMA would issue and sell participation certificates based on pools of loans set aside by the agencies, departments, and instrumentalities for that purpose.

Custody, control, collection, and servicing of the obligations would remain with the Government agency which had originally made the loan and the title would be deemed to have passed to FNMA in trust.

In other words, none of the assets in the pools are actually transferred through sale to private rather than public ownership.

Rather, the assets are used as collateral for the issuance of other federally guaranteed obligations in the form of certificates which are sold in the private market. Thus, this is not a sale of assets, but a straight borrowing transaction.

The transaction is not unlike that of an individual who mortgages his home to get money with which to pay his grocery bill. The Government, in this case, is mortgaging its long-term assets and will use the proceeds received to meet current operating expenses.

Proposal has disadvantages

We suggest that this method of financing has several disadvantages:

1. It will not replace Federal credit programs with private lending.
2. It is more expensive than direct Treasury borrowing.
3. It may well result in increased Federal spending.
4. There are better alternatives.
5. It destroys the meaning of the deficit in the administrative budget.
6. It destroys whatever limited restriction the debt ceiling has on Federal spending.

Federal lending not replaced with private

The major argument used in support of this legislation is that it would replace Federal credit with private credit.

We suggest that this method of financing may well have the opposite effect causing an increase in Federal lending and a decrease in private lending activities for several reasons:

1. The money used to purchase participations will be withdrawn from the private markets and thus will not be available for their normal lending operations. Already credit is tight and this could make it still tighter.

2. This program will discourage the private market from taking greater responsibility and eventually replacing the direct lending programs now handled by the Federal Government. Why would a private lender want to loan funds in the private market in which he has to service the loan and to take all the risk of default when he will be able to put his funds in a Government certificate which will produce income at the going market rate and cannot go into default under any foreseeable condition?

3. Certainly no one would suggest that the private market can compete with the various "below market rates" offered in many direct lending programs of the Federal Government. As the volume of loans bearing these subsidized rates continues to increase, private lenders will be correspondingly forced out of these markets. Most of the \$33 billion in direct loans now held by the Federal agencies were made at submarket interest rates.

4. When a private lender makes a loan either with or without a Government guarantee, he necessarily becomes familiar with that loan by servicing it through actual contact with the borrower. When he purchases a participation, he is removed another step away from the actual borrower. He gains no familiarity with the individual loans on which they are based and takes no responsibility for them.

Expensive method of borrowing

Participation sales are a more expensive method of borrowing than the sale of long-term Treasury bonds. There is no way to accurately determine just how much additional cost will be incurred through this method of borrowing. It has been pointed out in the hearings that the interest rate differentials vary depending on the market. Witnesses have also disagreed as to whether the differential would increase or decrease over time.

Suffice it to point out that when a somewhat similar method of financing occurred in 1959, the estimated differential was 0.63 percent. Now, 7 years later, on March 16, the differential is 0.6 percent between participations issued by FNMA on that day and the yield on Treasury bonds.

Testimony offered by the Budget Bureau suggested that the differential may be as low as "25 to 35 basis points," or an additional 0.25 to 0.35 percent. It was further stated that this is a modest additional cost.

Even using the smallest estimated differential when combined with other costs of this method, it means that the borrowing of money to the extent authorized by this legislation would cost the taxpayer an estimated additional \$1.5 billion to \$2 billion.

It is difficult for us to think of this as a small sum even when billions are thrown around by the hundreds.

Increased Federal spending

In addition to the increase in Federal expenses brought about through the additional cost of financing participation certificates over that for direct Treasury borrowing, this method of financing makes it possible to report a smaller deficit or even a surplus in the administrative budget even though current Government income has not increased or expenditure been reduced. The relatively small budget deficit estimated by the President in his 1967 budget message, made possible by the expected sale of participation certificates, is an open invitation to Congress to support some programs that could be eliminated or even increase Federal spending above the budget.

There are better alternatives

It has been stated that this is the best way for the Federal Government to get out of a longtime fiscal problem, created by the fact that there is a 4¼-percent ceiling on the interest the Treasury can pay on long-term bonds. In today's tight money market, it is not possible for the Federal Government to raise long-term money except at rates above that limit.

We feel that to remove the 4¼-percent ceiling would be a better permanent solution because it is unrealistic and serves no useful purpose.

Of course, unnecessary spending could also be cut—but apparently the administration rejects this as a solution.

Destroys meaning of deficit

This proposed procedure will make any claimed balancing of the budget an illusion. It could seem to be balanced at any time without true current income being equal to current expenditures.

The funds needed to produce such an illusion would have been provided through the sale of enough participation certificates to offset any amount of Federal spending above tax and other normal operating receipts.

While this may seem to be politically desirable for the party in power, it makes comparisons between annual fiscal records meaningless.

In making their analyses of the effect of Federal spending on the economy, most economists use what is called the national income accounts budget. The average person, however, is not aware that there are several Federal budgets differing in important respects. All he hears about is the final surplus or deficit and unless that figure shows the deficit on "regular transactions" without the offsetting effect of the sale of participations, he will not get the true picture.

The procedure, made possible by this bill, will confuse and mislead the taxpayer and voter. Its maneuverings appear to be designed more for political advantage than for any possible fiscal benefit.

Debt ceiling limitation destroyed

Since the funds borrowed through the method proposed in this legislation are not part of the Federal debt, a similar illusion is created with respect to the Federal debt ceiling. In fact, the bill would provide for an additional \$33 billion in borrowing that would not be

under that ceiling. Admittedly, the ceiling is not absolute and can be raised by the Congress, but it does provide a benchmark against which to measure the rate by which our debt is increasing. This bill will destroy that checkpoint.

Credit should be taken by the minority for protecting the authority of the Congress over the lending programs and participation sales. The original bill sent to the Congress made it possible to evade congressional control. The minority on the House side, sponsored an amendment that would make all participation sales subject to the appropriations process. This amendment was accepted by the Treasury and incorporated in the Senate bill as reported by the committee. Fortunately, congressional approval will be required and Congress will not have lost its indispensable role bestowed upon it by the framers of this government of checks and balances.

WALLACE F. BENNETT.

STROM THURMOND.

BOURKE B. HICKENLOOPER.

INDIVIDUAL VIEWS OF SENATOR JOHN G. TOWER

I feel efforts to camouflage this bill through such contentions that "it will substitute private money for Federal money" in the Federal Government's \$33 billion direct loan program, and that "the Federal Government should sell the loan assets" in the private market and use the private money to support the Government loaning program, should be resented.

This bill will do neither. Chief supporters of the measure should have been more truthful. They should have said what all of us know: "We are in fiscal trouble. We must try to hold the 1967 fiscal budget deficit to \$1.8 billion, even if the rest of the deficit doesn't show in the budget. We must meet the domestic programs to which we are obligated because the die is cast. We can do all this by auctioning off some I O U 's on the loan collaterals we have on hand."

This is what this bill will do. There is nothing wrong with being honest. There is nothing wrong with meeting the problems of the day head on. There is nothing wrong in telling the Congress and the people we are about to embark on a new form of governmental financing.

Everybody gets into fiscal trouble from time to time. Our taxpayers in great numbers experience that trouble in various degrees about this time of the year. They know that to alleviate those problems sometimes costs a premium.

That is what we are going to do, if this bill is passed, pay a premium for having gotten into a fiscal mess.

However, there is one feature about this bill that I like very much. It becomes a beacon on the congressional spending horizon and it flashes a warning signal to us to take it easy on new spending programs else we should run out of those assets affected by this measure.

My country's welfare comes first in every respect and I stand ready to meet its problems head on at all times. Until our fiscal mess is cleaned up I will find it most difficult to vote for any new spending programs.

Also, I hail the provision in the bill which maintains the right of Congress, under the appropriation acts, to continue having some control over the manipulations which will result from this bill.

JOHN TOWER.

INDIVIDUAL VIEWS OF SENATOR STROM THURMOND

Earlier in this session of Congress, the Banking and Currency Committee of the Senate, and subsequently the Senate itself, approved S. 2499, a bill to allow the Small Business Administration to market participation certificates based upon a pool of its outstanding loans. The actual marketing was to be done by the Federal National Mortgage Association through a trust arrangement with SBA. This action by the committee was taken only after long and exhaustive hearings and consideration in executive session.

It was rumored at the time that the administration would ask similar authority for a wide range of other Government agencies which engage in lending functions. Assurances were given that committee approval of S. 2499, the SBA participation sales bill, would not be considered a precedent for additional action along the same line. I opposed S. 2499 because I considered it bad policy for the reasons expressed in the minority views contained in Senate Report No. 1056, the Banking and Currency report on S. 2499, in which I joined. An additional reason for my opposition to S. 2499 was my fear that, once established, this policy would be extended to other Government agencies with hardly a second thought.

Unfortunately, my fears have been realized. It is here proposed to allow "the head of any executive department, agency, or instrumentality of the United States" to enter into an agreement with FNMA whereby participation certificates will be marketed on their behalf. This bill has been reported by the committee after only 2 days of hearing, one of which was held prior to the introduction of the bill in the Senate. Committee action was taken before it was known which or even how many Government departments, agencies, or instrumentalities would be covered by the all-encompassing language of the bill.

The overall economic impact of this bill, S. 3283, has been discussed in the minority views, in which I have joined. I do not intend to belabor any of the points discussed in the minority views, except to draw attention once again to the speciousness of the argument of the proponents of this measure that this is a method of replacing Government financing with private financing. All Government funds come ultimately from private sources, whether they come from the levying of taxes or by borrowing. If the Treasury borrows the money or if a department, agency, or other instrumentality of the Government borrows the money, it must come from private sources. The private money in the market will go looking for the best terms available, i.e., the highest interest rates, and it is clear that the participation certificates will have higher yields than will an obligation which issues from the Treasury. Therefore, both the Treasury and the beleaguered taxpaying American public stand to suffer if this bill is enacted.

Inflation is a concern to us all, and it is imperative that we look for ways to combat it. The most logical and certainly the surest way to strike a blow for economic stability is to curtail unnecessary and extravagant expenditures by the Government. This bill, if enacted, may well lead to increased Government outlays, thereby accelerating the inflationary trend now gripping the country.

In the interest of both economic stability, and "truth in borrowing", the Senate should reject this bill.

STROM THURMOND.



Calendar No. 1105

89TH CONGRESS
2D SESSION

S. 3283

[Report No. 1140]

IN THE SENATE OF THE UNITED STATES

APRIL 27, 1966

Mr. MUSKIE introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

APRIL 28, 1966

Reported by Mr. MUSKIE, without amendment

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Participation Sales Act
4 of 1966".

5 SEC. 2. (a) Section 302 (c) of the Federal National
6 Mortgage Association Charter Act is amended—

7 (1) by inserting "(1)" immediately following

8 " (c) ";

9 (2) by inserting after "undertakings and activities"

1 a comma and "hereinafter in this subsection called
2 'trusts','";

3 (3) by striking out the words "offered to it by the
4 Housing and Home Finance Agency or its Adminis-
5 trator, or by such Agency's constituent units or agencies
6 or the heads thereof, or any first mortgages in which
7 the United States or any agency" in the first sentence
8 thereof and by inserting "and other types of securities,
9 including any instrument commonly known as a secu-
10 rity, hereinafter in this subsection called 'obligations,'
11 in which the United States or any executive department,
12 agency,";

13 (4) by striking out the third sentence thereof and
14 substituting therefor the following: "Participations or
15 other instruments issued by the Association pursuant to
16 this subsection shall to the same extent as securities
17 which are direct obligations of or obligations guaranteed
18 as to principal or interest by the United States be deemed
19 to be exempt securities within the meaning of laws
20 administered by the Securities and Exchange Commis-
21 sion."; and

22 (5) by striking out the fourth sentence thereof.

23 (b) Section 302 (c) of such Act is further amended by
24 adding the following:

25 "(2) Subject to the limitations provided in paragraph

(4) of this subsection, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the "trustor", is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: *Provided*, That the trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided

1 in the instrument creating the trust. The trust instrument
2 shall provide that the trustee will promptly pay to the
3 trustor the full net proceeds of any sale of beneficial interests
4 or participations to the extent they are based upon such
5 obligations or collections. Such proceeds shall be dealt
6 with as otherwise provided by law for sales or repayment of
7 such obligations. The effect of both past and future sales
8 of any issue of beneficial interests or participations shall be
9 the same, to the extent of the principal of such issue, as
10 the direct sale of the obligations subject to the trust. Any
11 trustor creating a trust or trusts hereunder is authorized to
12 purchase, through the facilities of the trustee, outstanding
13 beneficial interests or participations to the extent of the
14 amount of his responsibility to the trustee on beneficial
15 interests or participations outstanding, and to pay his proper
16 share of the costs and expenses incurred by the Associa-
17 tion as trustee pursuant to the trust instrument, and for
18 these purposes may use any appropriated funds or other
19 amounts available to him for the general purposes or pro-
20 grams to which the obligations subjected to the trust are
21 related.

22 “(3) When any trustor guarantees to the trustee the
23 timely payment of obligations he subjects to a trust pur-
24 suant to this subsection, and it becomes necessary for such
25 trustor to meet his responsibilities under such guaranty, he

1 is authorized to fulfill such guaranty by using any appro-
2 priated funds or other amounts available to him for the
3 general purposes or programs to which the obligations sub-
4 jected to the trust are related.

5 “(4) Beneficial interests or participations shall not be
6 issued for the account of any trustor in an aggregate princi-
7 pal amount greater than is authorized with respect to such
8 trustor in an appropriation Act. Any such authorization
9 shall remain available until used.

10 “(5) The Association, as trustee, is authorized to issue
11 and sell beneficial interests or participations under this sub-
12 section, notwithstanding that there may be an insufficiency
13 in aggregate receipts from obligations subject to the related
14 trust to provide for the payment by the trustee (on a timely
15 basis out of current receipts or otherwise) of all interest or
16 principal on such interests or participations (after provision
17 for all costs and expenses incurred by the trustee, fairly
18 prorated among trustors). Whenever the issuance of an
19 aggregate principal amount is authorized pursuant to para-
20 graph (4) of this subsection, such an authorization in an
21 appropriation Act shall establish on the books of the Treas-
22 ury as appropriations such sums as may be necessary from
23 time to time to enable the trustor to pay the trustee such
24 insufficiency as the trustee may require on account of out-

1 standing beneficial interests or participations. Such trustor
2 shall make timely payments to the trustee from such appro-
3 priations, subject to and in accord with the trust instrument.”

4 SEC. 3. (a) Section 305 (c) of the Federal National
5 Mortgage Association Charter Act is amended by deleting
6 “by \$450,000,000 on July 1, 1966,”.

7 (b) Section 401 (d) of the Housing Act of 1950 is
8 amended by deleting “1968:” immediately preceding the
9 first proviso and by substituting therefor “1965, and 1967
10 and 1968:”.

11 SEC. 4. (a) Section 303 (c) of title III of the Higher
12 Education Facilities Act of 1963 is amended by striking out
13 the first nine words in the second sentence and substituting
14 therefor the following: “For the purpose of making pay-
15 ments into the fund established under section 305”.

16 (b) Title III of the Higher Education Facilities Act
17 of 1963 is further amended by adding after section 304 the
18 following new section:

19 “REVOLVING LOAN FUND

20 “SEC. 305. (a) There is hereby created within the
21 Treasury a separate fund for higher education academic
22 facilities loans (hereafter in this section called “the fund”)
23 which shall be available to the Commissioner without fiscal-
24 year limitation as a revolving fund for the purposes of this
25 title. The total of any loans made from the fund in any

1 fiscal year shall not exceed limitations specified in appropria-
2 tion Acts.

3 “(b) (1) The Commissioner is authorized to transfer
4 to the fund available appropriations provided under section
5 303 (c) to provide capital for the fund. All amounts
6 received by the Commissioner as interest payments or
7 repayments of principal on loans, and any other moneys,
8 property, or assets derived by him from his operations in
9 connection with this title, including any moneys derived
10 directly or indirectly from the sale of assets, or beneficial
11 interests or participations in assets, of the fund, shall be
12 deposited in the fund.

13 “(2) All loans, expenses, and payments pursuant to
14 operations of the Commissioner under this title shall be paid
15 from the fund, including (but not limited to) expenses and
16 payments of the Commissioner in connection with the sale,
17 under section 302 (c) of the Federal National Mortgage
18 Association Charter Act, of participations in obligations
19 acquired under this title. From time to time and at least
20 at the close of each fiscal year, the Commissioner shall pay
21 from the fund into the Treasury as miscellaneous receipts in-
22 terest on the cumulative amount of appropriations paid out
23 for loans under this title or available as capital to the fund,
24 less the average undisbursed cash balance in the fund during
25 the year. The rate of such interest shall be determined

1 by the Secretary of the Treasury, taking into consideration
2 the average market yield during the month preceding such
3 fiscal year on outstanding Treasury obligations of maturity
4 comparable to the average maturity of loans made from the
5 fund. Interest payments may be deferred with the approval
6 of the Secretary of the Treasury, but any interest payments
7 so deferred shall themselves bear interest. If at any time
8 the Commissioner determines that moneys in the fund exceed
9 the present and any reasonably prospective future require-
10 ments of the fund, such excess may be transferred to the
11 general fund of the Treasury.”

12 SEC. 5. Section 338 (c) of the Consolidated Farmers
13 Home Administration Act of 1961 is amended by striking in
14 the second sentence “and (8)” and inserting in lieu thereof
15 “(8) section 8 of the Watershed Protection and Flood Pre-
16 vention Act, as amended (16 U.S.C. 1006a) ; (9) section
17 32 (e) of the Bankhead-Jones Farm Tenant Act, as amended
18 (7 U.S.C. 1011) ; and (10)” ; and by inserting in the fifth
19 sentence after “title,” the following: “section 8 of the Water-
20 shed Protection and Flood Prevention Act, as amended, and
21 section 32 (e) of the Bankhead-Jones Farm Tenant Act, as
22 amended,”.

23 SEC. 6. Nothing in this Act shall be construed to repeal
24 or modify the provisions of section 1820 (e) of title 38,

1 United States Code, respecting the authority of the Adminis-
2 trator of Veterans' Affairs.

3 SEC. 7. Paragraph (7) of section 8 of the Federal
4 Credit Union Act (12 U.S.C. 1757) is amended to read:

5 " (7) to invest its funds (A) in loans exclusively to
6 members; (B) in obligations of the United States of
7 America, or securities fully guaranteed as to principal
8 and interest thereby; (C) in accordance with rules and
9 regulations prescribed by the Director, in loans to other
10 credit unions in the total amount not exceeding 25 per
11 centum of its paid-in and unimpaired capital and sur-
12 plus; (D) in shares or accounts of savings and loan
13 associations, the accounts of which are insured by the
14 Federal Savings and Loan Insurance Corporation; (E)
15 in obligations issued by banks for cooperatives, Federal
16 land banks, Federal intermediate credit banks, Federal
17 home loan banks, the Federal Home Loan Bank Board,
18 or any corporation designated in section 101 of the
19 Government Corporation Control Act as a wholly owned
20 Government corporation; or in obligations, participa-
21 tions, or other instruments of or issued by, or fully
22 guaranteed as to principal and interest by, the Federal
23 National Mortgage Association; or (F) in participation
24 certificates evidencing beneficial interests in obligations,

1 or in the right to receive interest and principal collections
2 therefrom, which obligations have been subjected by one
3 or more Government agencies to a trust or trusts for
4 which any executive department, agency, or instrumen-
5 tality of the United States (or the head thereof) has
6 been named to act as trustee;”

7 SEC. 8. The Secretary of the Treasury, in consultation
8 with heads of agencies of the United States carrying on
9 direct loan programs, shall conduct a study, in such manner
10 as he shall determine, on the feasibility, advantages, and
11 disadvantages of direct loan programs compared to guaran-
12 teed or insured loan programs and shall report his findings
13 together with specific legislative proposals to the Congress
14 not later than six months after the effective date of this
15 Act. There are authorized to be appropriated such sums
16 as necessary for the purpose of this section.

17 SEC. 9. The Federal National Mortgage Association is
18 authorized during fiscal year 1966 to sell (1) additional
19 participations in the Government Mortgage Liquidation
20 Trust, and (2) participations in a trust to be established by
21 the Small Business Administration, each without regard
22 to the provisions of paragraph (4) of section 302 (c) of
23 the Federal National Mortgage Association Charter Act,
24 as added by this Act.

80TH CONGRESS
2D SESSION

S. 3283

[Report No. 1140]

A BILL

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

By Mr. MUSKIE

APRIL 27, 1966

Read twice and referred to the Committee on
Banking and Currency

APRIL 28, 1966

Reported without amendment

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued May 3, 1966
For actions of May 2, 1966
89th-2nd; No. 72

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HIGHLIGHTS: Rep. Skubitz claimed executive branch unfairly holds down farm prices.
Rep. Davis, Wisc., criticized increase in Cheddar cheese imports.

HOUSE

1. EDUCATION. Passed under suspension of the rules H. R. 14644, to extend the Higher Education Facilities Act of 1963 for 3 years and to authorize assistance to developing institutions for an additional year, which had been reported earlier in the day by the Education and Labor Committee (H. Rept. 1467). pp. 9004-10, 9053
2. FOREIGN TRADE. Passed without amendment H. R. 8376, to make permanent duty-free treatment of certain corkboard insulation (p. 8980); H. R. 12461, to continue

until Sept. 5, 1969, the suspension of duty on certain istle (pp. 8982-3); and H. R. 12463, to continue until June 30, 1969, the suspension of duty on crude chicory roots and reduction in duty on prepared chicory roots (p. 8983).

Passed as reported H. R. 12864, to make permanent the duty-free treatment of personal and household effects brought into the U. S. under Government orders (pp. 8984-5, 9018-9); and H. R. 12328, to extend for 3 years the duty-free treatment of certain extracts suitable for tanning (p. 8982).

3. RECLAMATION. Conferees were appointed on S. 602, to broaden and strengthen the Small Reclamation Projects Act. Senate conferees have been appointed. p. 9014
4. FARM PRICES. Rep. Skubitz claimed the executive branch has unfairly held down farm prices and has discriminated against farmers in the anti-inflation drive. p. 9021
5. EXPENDITURES. Rep. Curtis spoke in favor of reducing Federal expenditures as an anti-inflation measure and inserted an article by Henry Hazlitt. pp. 9023-4
6. FLAG. Passed without amendment H. J. Res. 763, requesting the President to designate annually as National Flag Week the week in which June 14 occurs. pp. 8977-8

SENATE

7. PARTICIPATION SALES. The Senate met briefly and made its unfinished business S. 3283, the participation sales bill. pp. 8967

ITEMS IN APPENDIX

8. COPYRIGHT LAW. Extension of remarks of Rep. Kastenmeier commending and inserting a speech by Rep. Tenzer urging enactment of a bill for the general revision of the Copyright Laws. pp. A2339-41
9. FFA. Extension of remarks of Rep. Dole paying tribute to Robert Wiles, this year's recipient of Future Farmers of America's Star Farmer Award and inserting an article, "Kansas is Proud of Him." p. A2341
10. FOREIGN TRADE. Speech in the House by Rep. Bingham against the motion to add to the agriculture appropriation bill the proviso that would prohibit agreements under Titles I and IV of Public Law 480 with countries whose ships carry goods to North Vietnam. pp. A2341-2
11. INFORMATION. Rep. Rumsfeld inserted an editorial urging enactment of the bill to clarify and protect the right of the public to information. p. A2342
12. ELECTRIFICATION. Extension of remarks of Rep. Holifield commending the start-up of the Hanford atomic steamplant. pp. A2342-3
13. RESEARCH ANIMALS. Extension of remarks of Rep. Shriver commending House passage of the dog-cat handling bill and inserting the testimony of the Director of the National Institutes of Health. p. A2349
Speech in the House by Rep. Culver favoring passage of the dog-cat handling bill. p. A2366



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No. 72

Senate

The Senate met at 12 o'clock meridian, and was called to order by Hon. HERMAN E. TALMADGE, a Senator from the State of Georgia.

Dr. Frank Blackwelder, rector, All Souls Episcopal Memorial Church, Washington, D.C., offered the following prayer:

And Jesus answering said, "Were there not ten cleansed? but where are the nine? There are not found to give glory to God, save this stranger."

In Thy infinite wisdom, O God, Thou hast endowed mankind with the kindred capacities of thinking and thanking.

As the ingenuity of our minds expands the horizons, revealing the magnitude of Thy grandeur and glory in the universe, grant that our attitude of gratitude proportionately increases.

Prevent us from subduing our instinct of thanksgiving. As we concentrate upon the development of our mental faculties, may we simultaneously intensify our native tendency for expressing appreciation. Let us never forget that the proper response for all we are and all we have is a spirit of gratefulness.

Beginning and ending each day with thoughts of praise and thanksgiving, counting our blessings, remembering what others have done for us, may we become acceptable in Thy sight. Through Jesus Christ our Lord. Amen.

DESIGNATION OF ACTING PRESIDENT PRO TEMPORE

The legislative clerk read the following letter:

U.S. SENATE,
PRESIDENT PRO TEMPORE,
Washington, D.C., May 2, 1966.

To the Senate:

Being temporarily absent from the Senate, I appoint Hon. HERMAN E. TALMADGE, a Senator from the State of Georgia, to perform the duties of the Chair during my absence.

CARL HAYDEN,
President pro tempore.

Mr. TALMADGE thereupon took the chair as Acting President pro tempore.

MESSAGES FROM THE PRESIDENT

Messages in writing from the President of the United States were communicated to the Senate by Mr. Geisler, one of his secretaries.

REPORTS ON ADMINISTRATION OF CHAPTER 73, "ANNUITIES BASED ON RETIRED OR RETAINER PAY," TITLE 10, UNITED STATES CODE—MESSAGE FROM THE PRESIDENT

The ACTING PRESIDENT pro tempore laid before the Senate the following message from the President of the United States, which, with the accompanying reports, was referred to the Committee on Armed Services:

To the Congress of the United States:

Pursuant to the provisions of section 1444(b), title 10, United States Code, I transmit herewith for the information of the Congress reports on the administration of chapter 73, "Annuities Based on Retired or Retainer Pay," title 10, United States Code.

LYNDON B. JOHNSON.

THE WHITE HOUSE, May 2, 1966.

EXECUTIVE MESSAGES REFERRED

As in executive session, The ACTING PRESIDENT pro tempore laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the appropriate committees.

(For nominations this day received, see the end of Senate proceedings.)

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Bartlett, one of its reading clerks, announced that the House had passed a bill (H.R. 13881) to authorize the Secretary of Agriculture to regulate the transportation, sale, and handling of dogs and cats intended to be used for purposes of research or experimentation, and for other purposes, in which it requested the concurrence of the Senate.

HOUSE BILL REFERRED

The bill (H.R. 13881) to authorize the Secretary of Agriculture to regulate the transportation, sale, and handling of dogs and cats intended to be used for purposes of research or experimentation,

and for other purposes, was read twice by its title and referred to the Committee on Commerce.

THE JOURNAL

Upon request of Mr. MANSFIELD, and by unanimous consent, the reading of the Journal of the proceedings of Thursday, April 28, 1966, was dispensed with.

PARTICIPATION SALES ACT OF 1966

Mr. MANSFIELD. Mr. President, there will be no business transacted in the Senate today, but at this time I ask unanimous consent that Calendar No. 1105, S. 3283, be made the pending business for consideration tomorrow.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered. The bill will be stated by title for the information of the Senate.

The LEGISLATIVE CLERK. A bill (S. 3283) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

Mr. MANSFIELD. Mr. President, that will be the pending business when the Senate resumes tomorrow.

I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. PROXMIER in the chair). The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. HART. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

DEATH OF SENATOR PAT McNAMARA, OF MICHIGAN

Mr. HART. Mr. President, I submit a resolution and ask for its immediate consideration.

The PRESIDING OFFICER. The resolution will be stated for the information of the Senate.

The resolution (S. Res. 253) was read, considered by unanimous consent, and unanimously agreed to, as follows:

Resolved, That the Senate has heard with profound sorrow and deep regret the an-

nouncement of the death of Honorable PATRICK V. McNAMARA, late a Senator from the State of Michigan.

Resolved, That a committee of Senators be appointed by the President of the Senate to attend the funeral of the deceased.

Resolved, That the Secretary communicate these resolutions to the House of Representatives and transmit an enrolled copy thereof to the family of the deceased.

Mr. HART. Mr. President, in the 8 years that I have served in the Senate, on occasion I have heard Senators rise to announce the death of a colleague. It is a task I had always hoped would never be mine, but now it becomes necessary.

As Senators already know, the senior Senator from Michigan, PAT McNAMARA, our colleague and our friend, died Saturday night at Bethesda Naval Hospital.

After that is said, one is struck immediately by the hopeless inadequacy of the English language—at least, my command of it—in expressing my reaction.

Words like "regret," "sadness," "shock" are so eroded with time and overuse that they no longer serve their purpose. It is PAT's misfortune, I feel, to have a junior colleague who cannot put the words in order so that they will produce a graceful recital, one which PAT truly deserves.

PAT made many contributions to the Senate, to Michigan, and to the Nation. I could stand here for 10 minutes reeling off the list of bills which he supported, sponsored, and saw enacted into law. He never made a list of the measures of which he was proudest—not to my knowledge, at least—because that might have carried a whiff of self-congratulation, and PAT was not tolerant of boasters.

If one watched him closely, if one observed the subjects that made him grin and the issues that made him intense, then one could sense his proudest accomplishments; namely, health care for the aged and Federal aid to education programs, which he pressed so assiduously.

PAT's formal education ended with the sixth grade and—under his crusty manner and tough Irish humor—he never forgot it.

He more than made up for his lack of formal education with talent, ability, and intelligence. He may never have believed that, but I believe that he always wistfully suspected—although, again, this is something he rarely mentioned—that a university training would somehow have made him a better Senator.

This feeling poured itself into his philosophy on education. PAT never cited himself as proof that education is less necessary than initiative.

His feelings, typically, were summed up in 10 words:

Any kid that can get through college ought to go.

The Knight Newspapers' Ed Lahey summed up another characteristic far better than I could:

It can be truthfully said—

Ed wrote—

that Washington never got to PAT McNAMARA.

The story, written when PAT announced his retirement, went on to de-

scribe his refreshing directness, his lack of guile, and his indifference to the vanities of office.

For these reasons, we are going to miss more than just a strong effective force in this body. We will miss a colorful personality, a man who mixed crustiness and kindness, incisiveness, and humor, pragmatism, and idealism in an utterly charming fashion—although "charming" is not a word PAT would select or approve.

He was a man—as I well know—who would go to great lengths to do a good turn for a younger colleague and then gruffly wave off any attempt to express thanks.

If anyone wanted to make some admiring remarks about him on the floor, it was a mistake to notify him in advance. If he could not dissuade the speaker from making the speech, he would probably not show up to hear it.

In a profession that often regards personal publicity as a key to survival, PAT was no publicity seeker.

When one of his bills was enacted, his appearance at the Presidential signing at the White House was not automatic.

All I care about is getting the thing signed into law—

He once said—

and that will happen whether I'm there or not.

Thus, some other Member of Congress—with PAT's blessing—would have his picture taken receiving the first pen from the President.

Since PAT's retirement, one of the remarks heard most often in speeches and editorials about him has been this: "There is never any doubt about where he stands."

PAT had a great impatience with fuzziness. If he was ever tempted to fog an issue, there is no record that he ever succumbed to it.

In fact, one of his greatest contributions to this body was his puckish ability to keep men and ideas from becoming overinflated. Certainly, he kept his own ego on a strict diet.

In writing this eulogy, it occurred to me that millions of people will benefit from the programs he pushed without ever knowing who PAT McNAMARA was. But it is not a thought we need be saddened by, because that would suit PAT McNAMARA just fine.

Mary McNamara was at her husband's side when he died. She had remained with him night and day during his illness.

Also with him on Saturday were Robert Perrin, his administrative assistant until a few weeks ago, and now an Assistant Director of the Office of Economic Opportunity, and Ed Winge, his present administrative assistant.

This morning I asked Ed if there was anything he thought I should include in this announcement. And his answer should have a place here.

Just say—

Ed replied—

that PAT was a tough Irishman who fought as long as he could.

Mr. MANSFIELD. Mr. President, will the Senator yield?

Mr. HART. I yield to the distinguished majority leader.

Mr. MANSFIELD. Mr. President, Senator McNAMARA of Michigan was a man of immense heart and a profound integrity. His death deprives us of the association of a good man and a fine colleague. His loss is a loss of a piece of the conscience and the decency of the Senate.

Through the years of his public life, Senator McNAMARA upheld the people of Michigan and the United States, even as their unfailing support and affection sustained him in his labors. He never failed to stand for, by, and with the humblest of Americans. His legislative contributions are of special significance for them, and they are now blended inextricably into the laws of the land. He would have been the last to claim credit for it, but Senator McNAMARA was, in fact, heavily responsible for much of the social legislation of the last three Congresses. In truth, there is not a single piece of such legislation in these Congresses of great social legislation which does not carry the imprint of his support. And more often than not, these laws bear also the influence of his leadership.

We are diminished, Mr. President, by the passing of PAT McNAMARA, even as the Senate and the Nation are enhanced for his having lived. I grieve for the Nation and the Senate at his passing and, for myself, there is a sense of irreparable loss of a friend, a colleague, and a great American.

There was no better Senator.

Mr. DIRKSEN. Mr. President, will the Senator yield?

Mr. HART. I yield to the distinguished minority leader.

Mr. DIRKSEN. Mr. President, long ago John Donne wrote:

Any man's death diminishes me, because I am involved in mankind.

Probably in an even more intimate and personal sense, I could say PAT McNAMARA's death has diminished me because it was my pleasure to serve on the Labor and Public Welfare Committee for a time, and there I had an opportunity to appraise him, and, as the expression goes, to see what "makes him tick."

When our distinguished friend from Michigan said that PAT McNAMARA was without guile, he put his finger on the one word in the English language that probably best expressed PAT McNAMARA. There was no scintilla of guile in him. He was what he was. He was what he is. He went straight to the heart of the matter without guile, without any effort to find a detour, without any effort to divert. And just as he did it for himself, so he did it with respect to others. Whenever I offered an amendment to a bill in the Committee on Labor and Public Welfare, he very promptly and very straight-facedly would say, "I move to table," and it did not bother him a bit.

That was the directness of the man. He had a singleness of purpose which was an admirable trait. I liked it. He knew where he was going, and he let no influence of any kind whatsoever dissuade him from moving to that purpose.

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
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POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
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HIGHLIGHTS: Sen. Yarborough praised House restoration of funds for extension work. Sen. Fulbright urged restoration of budget items for soil and water conservation. Sen. Hruska criticized Secretary Freeman's statement on farm prices. Senate debated sales participation bill. Sen. Pearson introduced and discussed food and fiber reserve bill. Rep. Fino introduced and discussed commodity cost control bill. Reps. Arends and Langen criticized USDA farm policy.

SENATE

1. PARTICIPATION SALES. Began debate on S. 3283, to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies. pp. 9135-43
2. SCHOOL MILK. Sen. Proxmire commended the House for its restoration of funds for the school milk program. pp. 9107-7
3. SMALL BUSINESS. Sen. Scott spoke in favor of S. 2729, to increase the ceiling on Small Business Administration revolving fund, and inserted the President's

signing statement. pp. 9109-10

4. POVERTY. Sen. Scott commended and inserted an editorial, "Poverty Program Impoverished." p. 9128
5. ELECTRIFICATION. Sen. Gruening commended and inserted an article explaining "the great importance to the United States and the Nation of constructing the great Rampart Dam on the Yukon River." pp. 9132-33
6. EDUCATION. Received a GAO report on the limited success in obtaining contributions for the binational educational exchange program. p. 9066
7. WATER POLLUTION. Sen. Inouye requested that numerous cosponsors be added to S. 3240, to provide for a study and investigation of estuaries and estaurine zones of the U. S. p. 9087
8. RECREATION. Sen. Metcalf inserted a comparison of the suitability of the Redwood Creek and Mill Creek areas as locations for a Redwood National Park. pp. 9133-35
9. LEGISLATIVE PROCESS. Sen. Byrd, W. Va., discussed the role of the House Rules Committee in the legislative process, describing the committee as "a good scapegoat and a scapegoat good for responsible government," and inserted a law student's paper on the subject. pp. 9094-8
10. FARM PROGRAM. Sen. Hruska criticized administration's farm program and inserted editorials supporting his views. pp. 9162-3
11. POPULATION; FOOD. Sens. Gruening and Yarborough inserted a speech by the chairman of the Population Crisis Committee offering a five-point program to meet the world food and population crisis. pp. 9128-30, 9166-8
12. OCEANIC RESEARCH. Sen. Inouye inserted an editorial discussing Hawaii's science and research program in which it is suggested that the oceans may be cultivated as a rich new source of both animal and vegetable food. pp. 9171-2
13. WATER RESOURCES. Sen. Hart commended the Federal-State-local cooperation in water pollution control in Michigan. p. 9168
Sen. Fulbright urged acceleration of the watershed program by increasing the appropriation for watershed planning and operations, and by eliminating the restrictions on new planning and new starts. p. 9172
14. RESEARCH; EXTENSION WORK. Sen. Yarborough stated that he deplored the proposed cuts in this Department's budget and inserted resolutions of Texas A & M urging restoration of funds for extension and agricultural research programs. p. 9176
15. ADJOURNED until Thurs., May 5. p. 9185

HOUSE

16. SUPPLEMENTAL APPROPRIATIONS. Conferees were appointed on H. R. 14012, the second supplemental appropriation bill, 1966, and consent was granted for the filing of a report by midnight Thurs., May 5. p. 9186

A COMPARISON OF THE SUITABILITY OF THE REDWOOD CREEK AND MILL CREEK AREAS AS LOCATIONS FOR A REDWOOD NATIONAL PARK—Continued

10. Feasibility:

AMENDMENT 487—SIERRA CLUB PLAN: REDWOOD CREEK-PRAIRIE CREEK REDWOODS STATE PARK AREA—continued

Preliminary professional report of the National Park Service identified this area as the most outstanding. National interest has centered on it (both as a result of the report and the discovery of the tallest trees). Considerable support is developing for a national park here, including support from a local citizens group (Citizens for a Redwood National Park).

S. 2962—ADMINISTRATION PLAN: MILL CREEK-JEDEDIAH SMITH REDWOODS STATE PARK AREA, INCLUDING DEL NORTE COAST REDWOODS STATE PARK—continued

Not recommended by the professional report of the National Park Service for Federal acquisition. National attention would have to be redirected toward this area, producing confusion. No local support group exists.

Mr. METCALF. Mr. President, I wish also to call attention to the unequivocal position concerning the park location that has been taken by the Citizens for a Redwood National Park, of Arcata, Calif.

We cannot support the administration bill—

Wrote Dave Van de Mark in the April 5 Citizens for a Redwood National Park Newsletter—

It is not for acreage alone that we must support the Sierra Club proposal—the indescribable beauty, uniqueness and variety of the redwoods and other features in the Redwood Creek region make this the only choice, if need we are looking toward the future.

To turn Jedediah Smith State Park and Del Norte Coast Redwoods State Park into a national park by renaming them would be tragic. They are State parks only and are not big enough and do not have the diversity or uniqueness worthy of national protection. Adding the heavily logged over upper Mill Creek watershed will not do anything to help.

Mr. President, I ask unanimous consent to insert the full text of the Citizens for a Redwood National Park Newsletter editorial, entitled "Why Redwood Creek?" at this point in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

• WHY REDWOOD CREEK?

Citizens for a Redwood National Park have strongly favored a park in the Redwood Creek-Prairie Creek area. JEFFERY COHELAN introduced such a bill in the House of Representatives last October. Since that time over 46 Congressmen have introduced companion bills, including such Senators as LEE METCALF, ROBERT and TED KENNEDY, and Representative MORRIS UDALL.

These bills embrace the Sierra Club proposal for a 97,600-acre park in the Redwood Creek-Prairie Creek region. The administration has just introduced a plan for a 45,000-acre park in the Mill Creek-Jedediah Smith region. One thousand four hundred acres would also be included centering around the tallest trees in Redwood Creek.

We cannot support the administration bill. It is not for acreage alone that we must support the Sierra Club proposal—the indescribable beauty, uniqueness, and variety of the redwoods and other features in the Redwood Creek region make this the only choice, if indeed we are looking toward the future.

The first, second, third, and sixth tallest known trees are found here; the last nearly intact watersheds are here; the largest mountain (Rogers Peak) completely covered with redwoods is here; the greatest elevational differences and climatic variations are here. With adjacent watersheds and Prairie Creek State Park as part of a park, the only place where redwoods grow in unbroken stands

from ridgetop to the sea here would be protected; Fern Canyon and Gold Bluffs Beach would be in this park. The only place left in California where the Roosevelt elk roam wild and free in their native habitat is here.

The redwoods themselves are, as a forest, the most beautiful and magnificent found anywhere. There is only one place left in the world where some of the tallest and largest living things meet the river's edge—unmarred by bulldozer and chainsaw—in the unique and awesome way they do here on Redwood Creek. This stretch of river, between Devil's Creek and Bridge Creek, has been called the "Emerald Mile."

The largest "islands" of virgin redwood in private ownership left are here—over 33,000 acres. With a chance to heal, the adjacent cutover land will provide young redwood forests which will someday be nearly as beautiful as the present "islands," at which time a larger and ever-increasing population will be thankful for the larger park.

The administration has chosen a second-best park in the wrong place. It shows a lack of courage to face up to the future's needs. It is an attempt to make political hay while at the same time, attempting to classify the maneuver a legitimate compromise.

To turn Jedediah Smith State Park and Del Norte Coast Redwoods State Park into a national park by renaming them would be tragic. They are State parks only and are not big enough and do not have the diversity or uniqueness worthy of national protection. Adding the heavily logged-over Upper Mill Creek watershed will not do anything to help. Only 6,000 additional acres of redwoods would be protected. The only attractions available would be the lovely bottom land stands along Smith River and lower Mill Creek. Visitor impact upon these two areas could ruin them. All other recreational and scientific attributes are equaled or outdone by nature in Redwood Creek.

To save only a dinky portion of Redwood Creek around the tallest trees (and little else) shows the lack of understanding among the planners of the administration's bill about why we even have national parks.

The fact that Secretary of the Interior Udall has never come out here to see what will be lost means we will have to inform him and others about the real park in Redwood Creek and to let others know we will not be satisfied with an irresponsible plan proposed by L.B.J.

Mr. METCALF. Mr. President, I also ask unanimous consent to insert in the RECORD the March 26 letter I received from Mrs. Hollis P. Allen, corresponding secretary of the Women's Democratic Club of Pomona Valley, Claremont, Calif. The letter includes the text of the club's petition to Congress to "create a superior Redwoods National Park of 90,000 acres in Redwood Creek drainage basin."

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

WOMEN'S DEMOCRATIC CLUB OF POMONA VALLEY, Claremont, Calif., March 26, 1966.

HON. LEE METCALF,
Senate Office Building,
Washington, D.C.

MY DEAR SENATOR METCALF: The Women's Democratic Club of Pomona Valley wishes to call the following resolution recently adopted by our club to your attention and urges your assistance:

"Whereas the National Park Service in 1964 made a thorough study of all coast redwoods and recommended creation of a Redwoods National Park in the Redwood Creek drainage basin;

"Whereas two proposals have now been submitted to Congress, one for a superior redwood national park which would preserve an additional 34,000 acres of virgin redwoods, and an expedient proposal which would preserve only 6,000 acres more of virgin redwoods in an area vulnerable to flood;

"Whereas immediate economic dislocation amounts to a 2-year cut of the redwood logging industry in the largest proposal to a 6-month cut in the expedient proposal (based on an annual rate equal to the 1965 cut of 15,000 acres of virgin redwoods), to be weighed against the benefits from a redwoods national park for generations: Therefore be it

"Resolved, We the Women's Democratic Club of Pomona Valley at regular meeting March 15, 1966, urgently petition Congress to create a superior Redwoods National Park of 90,000 acres in the Redwood Creek drainage basin, the finest remaining exhibit of coast redwoods."

We appreciate your sponsorship of the bill to create the superior Redwoods National Park and wish to state that we and many others far into the future will be grateful if this part of our great State can be conserved for all the Nation to enjoy.

Yours very truly,
Mrs. HOLLIS P. ALLEN,
Corresponding Secretary.

CONCLUSION OF MORNING BUSINESS

The PRESIDING OFFICER. Is there further morning business? If not, morning business is concluded.

PARTICIPATION SALES ACT OF 1966

Mr. MUSKIE. Mr. President, I ask unanimous consent that the unfinished business be laid before the Senate.

The PRESIDING OFFICER. Without objection, the Chair lays before the Senate the unfinished business, which is S. 3283.

The Senate resumed the consideration of the bill (S. 3283) to promote private financing of credit needs and to provide for an efficient and orderly method of

liquidating financial assets held by Federal credit agencies, and for other purposes.

Mr. MUSKIE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. MUSKIE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MUSKIE. Mr. President, over the years successive administrations and we in the Congress have endeavored to promote the flow of private savings and credit into uses that will help accomplish necessary and desirable social purposes. In addition to the flow of such funds through the private institutions of the market, the Government, and its agencies have helped to channel and direct the flow of funds into worthwhile purposes—private, as well as public.

By facilitating the channeling of private funds into programs now supported by Government loans, the intervention of Government can bring into more effective use the vast capital resources of the private market. It can reduce the need for expanding the Federal budget to accomplish desired ends. It can also make use of the flexibility, ingenuity, and competitive forces of the private market in serving the economy's needs.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. MUSKIE. I am happy to yield to the Senator from Delaware.

Mr. WILLIAMS of Delaware. I wonder if the Senator would not wish a quorum call in view of the fact that there are not many Senators present.

I understand this bill deals with the authority to dispose of \$33 billion worth of assets. In my opinion it is one of the major bills coming before this session of Congress because if the bill is enacted, as I understand it, it would be possible for the administration to spend up to \$33 billion without including it as a part of the national debt or without including it as normal expenditures.

In other words, if this bill is passed it would be possible for the administration to operate with \$30 billion deficits between now and 1968 and not show as a deficit so far as the American people are concerned. I believe that we should have a quorum call and have Senators present to let the people know with what we are dealing. This is the greatest camouflage and coverup of deficits ever proposed in Congress. I am therefore wondering whether the Senator would not wish to have a quorum call before he begins his remarks in support of the bill.

Mr. MUSKIE. The Senator's request for a quorum call is pretty well camouflaged by an argument against the bill but, nevertheless, I am happy to accede. The fact is, I discussed the advisability of having a quorum call before I began my remarks, and both the Senator from Delaware and the Senator from Utah [Mr. BENNETT] felt that it was not necessary. However, I am happy to suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. STENNIS in the chair). The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

[No. 71 Leg.]

Bayh	Long, La.	Russell, Ga.
Bennett	Mansfield	Smith
Burdick	McGee	Stennis
Cannon	McGovern	Talmadge
Dominick	Metcalf	Tydings
Douglas	Muskie	Williams, N.J.
Hartke	Nelson	Williams, Del.
Jordan, N.C.	Pearson	Yarborough
Kennedy, Mass.	Robertson	

Mr. LONG of Louisiana. I announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Tennessee, [Mr. BASS], the Senator from Idaho [Mr. CHURCH], the Senator from Pennsylvania [Mr. CLARK], the Senator from Tennessee [Mr. GORE], the Senator from Oklahoma [Mr. HARRIS], the Senator from Arizona [Mr. HAYDEN], the Senator from Alabama [Mr. HILL], and the Senator from Utah [Mr. MOSS] are absent on official business.

I also announce that the Senator from New Mexico [Mr. ANDERSON], the Senator from New York [Mr. KENNEDY], the Senator from New Mexico [Mr. MONTOYA], the Senator from South Carolina [Mr. RUSSELL], the Senator from Alabama [Mr. SPARKMAN], and the Senator from Ohio [Mr. YOUNG] are necessarily absent.

Mr. KUCHEL. I announce that the Senators from Nebraska [Mr. CURTIS] and Mr. HRUSKA are necessarily absent.

The Senator from Hawaii [Mr. FONG] is absent on official business.

The PRESIDING OFFICER (Mr. HARTKE in the chair). A quorum is not present.

Mr. MUSKIE. Mr. President, I move that the Sergeant at Arms be directed to request the attendance of absent Senators.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Maine.

The motion was agreed to.

The PRESIDING OFFICER. The Sergeant at Arms will execute the order of the Senate.

After a little delay, the following Senators entered the Chamber and answered to their names:

Aiken	Hart	Mundt
Allott	Hickenlooper	Murphy
Bible	Holland	Neuberger
Boggs	Inouye	Pastore
Brewster	Jackson	Pell
Byrd, Va.	Javits	Prouty
Byrd, W. Va.	Jordan, Idaho	Proxmire
Carlson	Kuchel	Randolph
Case	Lausche	Ribicoff
Cooper	Long, Mo.	Saltonstall
Cotton	Magnuson	Scott
Dirksen	McCarthy	Simpson
Dodd	McClellan	Smathers
Eastland	McIntyre	Symington
Ellender	Miller	Thurmond
Ervin	Mondale	Tower
Fannin	Monroney	Young, N. Dak.
Fulbright	Morse	
Gruening	Morton	

The PRESIDING OFFICER (Mr. JORDAN of Idaho in the chair). A quorum is present.

Mr. MUSKIE. Mr. President, effective fusion of public credit and private credit has been accomplished through the combination of various Federal lending programs with borrowing by the lend-

ing agencies or the sale of their assets to private investors. The asset-sales program has received great impetus since the mid-1950's.

The policy of asset sales has been endorsed by the distinguished Private Commission on Money and Credit, of which Secretary of the Treasury Fowler was a member and which issued its authoritative report in 1961, and by President Kennedy's Committee on Federal Credit Programs, of which former Secretary of the Treasury Dillon was Chairman. I might add that it was given high priority repeatedly in President Eisenhower's budgets and was urged in a minority report of the House Ways and Means Committee in 1963.

But despite major efforts to draw on private credit, the portfolio of direct Federal loans outstanding held by the Government and its agencies has increased in recent years. It was \$25.1 billion on June 30, 1961, and \$33.1 billion on June 30, 1965.

This has direct consequences on the Federal budget and, thus, on the policies followed by any administration. Money for direct lending programs must be budgeted. This means that it must be matched by tax revenue or by additional debt, or else that it must take the place of some other program, which then must be postponed or dropped. The money appropriated to a direct lending program, although it comes from current receipts, is tied up, often for years, in direct loans to individuals, businesses, and institutions, regardless whether there are private funds available which could take its place.

This situation led originally to the program of direct sales of federally held assets, which had the objective of reducing the portfolio of direct loans held by the Government. But problems occurring with the direct asset-sales program have become increasingly troublesome.

For one, we sometimes have as many as half a dozen agencies selling their loan paper, frequently to a limited market, and often in competition with each other. These agencies have greatly different degrees of experience and expertise in the field: some are very well qualified to carry on the sales—and some are less so. Finally, we have found that the direct, uncoordinated sale of assets can conflict with the Treasury's debt management operations. This is very disturbing.

The best technique we have at hand to cope with all these problems is to group assets consisting of loan paper into pools and to sell shares or participations in the pools. This is proposed in the participation sales legislation which we have received from the President.

The pools can gain diversity from the grouping of various kinds of loans. The sales will be centralized, expertly handled, and coordinated with the Treasury. Further, the participations will constitute an excellent and sought-after investment commanding a broad market.

The technique is not new. The Export-Import Bank of Washington has used it, since 1962, to sell about \$1.7 billion of its direct loans which otherwise might not have been marketable. The

Federal National Mortgage Association, "Fannie-May," acting under the Housing Acts of 1964 and 1965, has sold \$1.6 billion of participation certificates in its own mortgage holdings and those of the Veterans' Administration.

The basic provisions of the President's proposal are taken directly from the Housing Acts of 1964 and 1965. The earlier act authorized FNMA to act as trustee for the sale of participations in pools of first mortgages. The 1965 act extended this authority.

The Participation Sales Act before us—S. 3283—which is designed to carry out the President's proposal, will broaden use of the pooling technique by extending it to all agencies of the Federal Government which hold financial assets. Sales of participation will be managed and coordinated by FNMA, serving as trustee.

The cost of selling participations through FNMA, judging from past experience, may be about one-fourth to three-eighths of 1 percent more than direct Treasury borrowings for comparable maturities. This is not a negligible difference. But it is a modest one, considering the gains from strengthening private credit flows into our programs. In time, as the participation certificates gain wider acceptance and marketability, they are likely to command rates closer in line with Treasury issues. And, of course, asset sales through participation certificates will command lower rates than would the direct sale of the underlying loans.

Moreover, because of the 4¼-percent ceiling on the interest rate that may be paid in new issues of Federal Government bonds, the Treasury, in the present state of the market, must confine its offerings to securities maturing in less than 5 years. As a consequence of this and other market conditions, interest rates on longer term securities are now generally somewhat lower than shorter-term rates. Since issues of the proposed participation certificates may have longer maturities, their sales could tap that sector of the market at relatively favorable rates. Issues of longer term securities would give a broader maturity distribution in the debt structure and attract funds from a wider range of investors.

The resulting lessened reliance on shorter term issues would help avoid increasing the liquidity of the economy and thus exert an anti-inflationary influence.

The proposed legislation preserves—and in some cases strengthens—congressional control over the Federal credit programs. No new credit program or enlargement of a credit program is involved in it. Existing limits on the amount of new loans that can be written in a particular year and on the amount of loans outstanding at a given time will remain.

Perhaps the most important control written into the bill is this: No assets of any program can be pooled under it

without explicit congressional authorization in advance. Specific appropriation acts must precede—and set the size of—sales of participations in the loans of any of our credit programs. This is an addition to present congressional control.

In this connection, let me pause to deal with one note of criticism which has been voiced in connection with this legislation. The administration has been charged with attempting to provide for back-door financing. I assume back-door financing means financing programs without having to budget for them.

The congressional controls written into the bill are there for all to see. There is no way to finance a program—or a part of a program—under this bill without congressional authorization.

The budget effect of this proposal is clear—

In fiscal 1964 we replaced \$1.1 billion in public credit with private credit.

In fiscal 1965 we replaced \$1.6 billion.

In fiscal 1966 we expect to replace about \$3.3 billion. With the participation sales act, we will be able in fiscal 1967 to substitute private credit in the fashion I have described for about \$4.7 billion in public credit—more than four times the total in fiscal 1964.

The increase will result largely from broadening the use of the participation sales technique to include assets of the Farmers Home Administration, the Office of Education's academic facilities loan program, the college housing loan program and the public facilities loan program of the Department of Housing and Urban Development's Community Facilities Administration, and the Small Business Administration. Sales of assets from these programs will supplement the presently operating participation sales programs based on home mortgages held by FNMA and by the Veterans' Administration and on loans by the Export-Import Bank.

Mr. BENNETT. Mr. President, will the Senator from Maine yield at that point?

Mr. MUSKIE. I am happy to yield to the Senator from Utah.

Mr. BENNETT. The Senator has been listing a number of agencies which are holding obligations, which obligations would be covered by this Participations Act. In our hearings the other day, 51 programs were included in this authority. If the Senator does not have the list, I would be glad to ask unanimous consent at this point, that page 18 of our report containing this list of 51 agencies be printed in the RECORD, because I believe it is important that the complete record be made.

Mr. MUSKIE. I have no objection to that inclusion and, Mr. President, I ask unanimous consent to have it printed in the RECORD.

There being no objection, the list was ordered to be printed in the RECORD, as follows:

Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program

[In millions of dollars]

Agency or program	1965 actual	
	Direct loans	Guaranteed and insured loans
A. MAJOR AGENCIES OR PROGRAMS		
Office of Economic Opportunity.....	17	-----
Department of Agriculture:		
Commodity Credit Corporation.....	2, 115	419
Rural Electrification Administration.....	4, 072	-----
Farmers Home Administration.....	1, 990	727
Department of Commerce:		
Economic Development Administration.....	126	-----
Maritime Administration.....	109	419
Department of Defense: Military assistance credits.....	79	-----
Department of Health, Education, and Welfare:		
Office of Education.....	538	-----
Public Health Service.....	13	-----
Department of Housing and Urban Development:		
Federal National Mortgage Association.....	2, 121	300
Federal Housing Administration.....	527	49, 042
Public housing program.....	60	5, 033
College housing program.....	1, 927	-----
Urban renewal program.....	196	1, 382
Other major programs.....	432	-----
Department of the Interior: Reclamation loans.....	90	-----
Department of State: Agency for International Development.....	8, 997	144
Treasury Department:		
Loans to District of Columbia.....	139	-----
Foreign loans.....	3, 763	-----
Veterans' Administration.....	1, 649	30, 951
Export-Import Bank of Washington.....	2, 490	2, 617
Small Business Administration.....	1, 147	104
Total, major agencies or programs.....	32, 507	91, 138
B. OTHER AGENCIES OR PROGRAMS		
Department of Agriculture: Soil Conservation Service.....	15	-----
Department of Commerce: Aircraft loan guarantees.....		9
Department of Defense:		
Loans for construction of Ryukyu power system.....	9	-----
Defense production loans and guarantees.....	14	49
Department of Health, Education, and Welfare:		
Community facility loans.....	(1)	-----
Hospital construction activities.....	4	-----
Assistance to refugees in the United States.....	6	-----
Department of Housing and Urban Development:		
Urban mass transportation loans.....	2	-----
Liquidating programs (Community Facilities Administration).....	13	-----
Community disposal program.....	4	-----
Department of the Interior:		
Alaska public works (repayable investment).....	16	-----
Bureau of Indian Affairs.....	24	-----
Defense Production Act loans.....	8	-----
Fisheries loans.....	6	-----
Ship mortgage insurance.....		5
Guam rehabilitation program.....	2	-----
Minerals exploration program.....	1	-----
Department of Labor: Manpower development and training loans.....	(1)	-----
Department of State:		
Repatriation loans.....	3	-----
Loans to the United Nations.....	107	-----
Treasury Department:		
Defense Production Act loans (liquidating).....	4	-----
Reconstruction Finance Corporation (liquidating).....	5	-----
Civil defense loans.....	(1)	-----
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation fund.....	131	-----

Footnote at end of table.

Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program—Continued

[In millions of dollars]

Agency or program	1965 actual	
	Direct loans	Guaranteed and insured loans
B. OTHER AGENCIES OR PROGRAMS—continued		
General Services Administration:		
Public Works Administration bonds (liquidating).....	58	-----
Surplus property sales credit.....	100	-----
Interstate Commerce Commission:		
Guaranteed railroad loans.....	-----	214
National Capital Planning Commission: Advances to the District of Columbia and Maryland.....	(1)	-----
Veterans' Administration:		
Service disabled veterans fund.....	4	-----
Vocational rehabilitation fund.....	(1)	-----
Veterans special term insurance fund.....	5	-----
Veterans insurance and indemnities fund.....	1	-----
Veterans reopened insurance fund.....	(1)	-----
Total, other agencies or programs.....	547	276
All agencies.....	33,054	91,414

¹ Less than \$1,000,000 outstanding.

NOTE.—Figures may not add due to rounding.

Mr. MUSKIE. Let me say to the Senator from Utah that what I have just said describes the plans which the administration has to make use of this authority in fiscal year 1967.

Mr. BENNETT. I wanted to be clear that they were in a position to extend it to all the other agencies, so far as the authority given by the bill is concerned.

Mr. MUSKIE. The Senator is correct.

Mr. McGOVERN. Mr. President, will the Senator from Maine yield?

Mr. MUSKIE. I am happy to yield to the Senator from South Dakota.

Mr. McGOVERN. I invite the attention of the Senator from Maine to the concern which has been expressed by some rural electrification groups, several of which have talked to me about their fears that obligations issued to the REA might be involved under the terms of the proposed legislation. It is my understanding that the legislation is drafted in such a way as not intending to apply to obligations of the REA. Could the Senator give me assurances that that, in fact, is the intent of the proposed legislation?

Mr. MUSKIE. There is printed in the committee report a letter from Mr. Schultze, Director of the Bureau of the Budget, which discusses the question raised by the Senator. One paragraph in that letter reads as follows:

I can assure you that in no event under the legislation now before your committee will any participations be sold in any REA loans.

That letter was written to the chairman of the committee, the Senator from Virginia [Mr. ROBERTSON].

It is not the intent to cover soft loans or low-interest loans of that kind. This has particular reference to the REA proposal. It would not cover, and there is no intent to cover, for example, foreign aid loans which now amount to about

\$10 billion, which are included in the \$33 billion cited by the distinguished Senator from Utah.

That \$10 million will not be included. There are other very low interest-rate loans which it is not intended to try to program under the bill.

Mr. McGOVERN. I had intended to offer an amendment which would make it clear that no part of this act would apply to any obligations issued to the Rural Electrification Administration. However, in view of the assurances given me by the Senator from Maine, and also the statement which he has just quoted from the Director of the Bureau of the Budget, I shall withhold my amendment. However, I do wish to be very sure that it will not be necessary to offer my amendment.

Mr. MUSKIE. I thank the Senator.

Mr. President, I ask unanimous consent to have printed in the RECORD the text of the letter written by Mr. Schultze, Director of the Budget, to the Senator from Virginia [Mr. ROBERTSON] chairman of the Committee on Banking and Currency, on April 29, 1966.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

EXECUTIVE OFFICE OF THE

PRESIDENT,

BUREAU OF THE BUDGET,

Washington, D.C., April 29, 1966.

HON. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: You have inquired whether there is any intention on the part of the administration to seek the congressional authorization which would be required to include any rural electrification or telephone loans in participation pools established under the provisions of the Participation Sales Act of 1966.

As you know, the President has proposed legislation to establish Federal banks for rural electrification and telephone systems in order to provide supplementary financing for the Rural Electrification Administration program. We believe that favorable congressional action on this proposed legislation will assure a fully adequate supply of credit to meet the needs of rural electric and telephone cooperatives.

I can assure you that in no event under the legislation now before your committee will any participations be sold in any REA loans.

Sincerely yours,

CHARLES L. SCHULTZE, Director.

Mr. MUSKIE. Mr. President, before the colloquy with the distinguished Senator from Utah [Mr. BENNETT] and the distinguished Senator from South Dakota [Mr. McGOVERN] I had listed the administration's program for sales under the proposals if enacted in fiscal year 1967.

Sales of assets from these programs will supplement the presently operating participation sales programs based on home mortgages held by FNMA and by the Veterans' Administration and on loans by the Export-Import Bank—participation sales programs which I indicated earlier have previously been authorized by Congress and have been previously operated successfully.

Further, this bill will enable us to stop the upward trend in the total of direct Federal loans outstanding.

In fiscal 1966, we expect to hold the total to just over \$33 billion—only \$200 million above the level of fiscal 1965. In fiscal 1967, we expect to reduce the total outstanding to approximately \$31.5 billion. In later years, there may even be a declining trend in the volume of Federal resources immobilized in loans.

Mr. BENNETT. Mr. President, will the Senator from Maine yield?

Mr. MUSKIE. I yield.

Mr. BENNETT. I have a poor memory, but it seems to me that in our hearings we were told they expected the total of the Federal loans in fiscal 1967, about which we are talking, to reach \$39 billion.

Mr. MUSKIE. In the event the proposed legislation is not enacted and no sales were made under existing authority in fiscal 1966 and fiscal 1967.

Mr. BENNETT. No—I believe whether it is enacted or not.

Mr. MUSKIE. That is not my recollection. I attended the hearings. Of course, the record of the hearings will speak for itself on that point.

Mr. BENNETT. I want to make this point clear—and perhaps I should wait until my turn to speak—that we may be talking about balances. The Senator may be talking about the total of loans minus the volume of participations out against them. But I am sure the Senator from Maine knows that the loans are still the property of the Federal Government and that the participations do not wipe out the loans.

Mr. MUSKIE. The Senator is correct on that point. In the same way, FHA obligations are obligations of the Government, totaling I believe—what is it—the guarantee?

Mr. BENNETT. The guarantee?

Mr. MUSKIE. It is many billions of dollars. It seems to me that that figure approaches \$100 billion for all types of guaranteed and insured loans. Thus, in that same sense, there will be a Federal guarantee, or at least an agency guarantee behind these participations to save the purchasers from loss. But, in terms of the accounting which we have traditionally used in measuring the direct loans outstanding, the figures I have just read are accurate.

Mr. BENNETT. Then the Senator means that the velocity or the volume of the loan programs will be cut down deliberately on account of policy, that there will be fewer loans made for college housing.

Mr. MUSKIE. That is not—

Mr. BENNETT. That is the point I am trying to clear up.

Mr. MUSKIE. The point I am trying to make is that the total of direct Federal loans outstanding—

Mr. BENNETT. Yes.

Mr. MUSKIE. It is hoped will be reduced—

Mr. BENNETT. That would only be by—

Mr. MUSKIE. By the use of the participation sales.

Mr. BENNETT. The participation sales have nothing to do with the amount of Federal direct loans outstanding. Federal direct loans are made by the agencies and they can only reduce those already made, and only reduce them

when they are paid off. Total volume can only be reduced at a rate—move at a slower rate if the Treasury or the administration begins to taper off the program.

Mr. MUSKIE. I understand the point the Senator is making, and I am not trying to distort it. Perhaps I can put it this way: I believe that we agree on what the impact of this will be, that the total of direct loans outstanding, outside of those involved in participation pools which have been sold, will be the figures which I have indicated.

Mr. BENNETT. But those involved in participation pools have to be sold. They are still on the books.

Mr. MUSKIE. That is another argument. We are talking now about the validity of figures which I am trying to explain. I would be able now, and at a later point, to get into a discussion of whether there have been sales or not, sales of the paper that is involved, but we are now talking about the meaning of the figures I have given. I have tried to make that clear. I am not interested in trying to distort. The Senator is right when he says that the paper which makes up these pools will continue to be obligations. The loans will continue to be serviced by the agencies which hold them and will continue to be contingent liabilities of the Government in the way that I have tried to describe. But, under these pools, participation certificates will have been sold. No one has said today, on this side, that we are selling paper. We are selling certificates in the participation pools.

Mr. BENNETT. That is right.

Mr. MUSKIE. I believe that point should be made clear. The Senator is right when he says that would be clear—

Mr. BENNETT. It is clear to me.

Mr. MUSKIE. And I hope that the RECORD following our colloquy will make it clear.

Mr. BENNETT. I appreciate the patience of the Senator from Maine. I probably should not have interrupted him at the point that I did. Later on, I should like to return to this same issue and develop it from my own point of view.

Mr. MUSKIE. I do not object to the interruptions. May I say to the Senator that I am getting educated in the process. I think, since we are not going to get to a vote today, any colloquy on this subject may be useful to Senators who will read the RECORD, which may enlighten them in connection with the vote when it comes.

Mr. BENNETT. I thank the Senator.

Mr. MUSKIE. In connection with the programs to be affected by this bill, let me mention another unfounded criticism which has been made. It goes something like this: Selling these Federal assets amounts to turning over worthwhile programs to the profit-motivated designs of operators in the private money markets.

If this were true, we would be well advised not only to look askance at the legislation before us but also to rethink the asset sales policy of the last 10 years or more. But this charge has no foundation in fact.

Sales of pool participants would not give the buyers any control whatsoever over the programs under which loans are made.

We in the Congress would enact the programs and maintain control over the administering agencies. Further, the agencies responsible for administering the lending programs would retain their responsibility.

The question we face is not whether we want to turn control of Federal lending programs over to the private market. It is whether we want programs in which we have a keen interest to become increasingly subject to the fiscal squeeze that growing demands place upon the Federal budget.

There have also been charges about "budget gimmickery" in relation to the bill. This accusation relates to the budget treatment of assets when they are sold.

As we should all know, the sales of assets are treated in the budget as negative expenditures, rather than as receipts. Those who level the charge of budget gimmickery should realize that this procedure is neither something new with this bill nor something new with this administration. It is nothing more or less than the conventional budget treatment given the entire program of asset sales dating back to the mid-1950's or earlier.

An argument against the method of accounting used in handling asset sales in the Federal budget is less an argument against this bill than against the entire asset sales program already authorized by Congress.

We have at hand a useful technique which broadens the bridge between the private market and our Federal lending programs. We owe it to the taxpayers, to the many people who need the assistance our credit programs can provide and to the private enterprise economy which has sustained us so well throughout our history to take fullest advantage of the vast resources of the private market.

Let me close by quoting from the President's letter transmitting the legislation to us. No one can speak more forcefully for this bill than the President himself:

The participation sales act of 1966 will permit us to conserve our budget resources by substituting private for public credit while still meeting urgent credit needs in the most efficient and economical manner possible.

It will enable us to make the credit market stronger, more competitive, and better able to serve the needs of our growing economy.

But above all, the legislation will benefit millions of taxpayers and the many vital programs supported by Federal credit. The act will help us move this Nation forward and bring a better life to all the people.

Mr. WILLIAMS of Delaware. I wish to ask if the Senator does not feel that this method of financing will cost substantially more to the American taxpayer than the ordinary way of borrowing by floating bond issues.

Mr. MUSKIE. I have explained that in my prepared statement. It would cost more—I suspect there would be a difference between us as to just how much more—through the use of partici-

pation sales than by direct Treasury borrowing; but I point out that this method has been in effect since the mid-1950's, and we have decided that it is desirable in order to reduce the commitment of public money to these loan programs.

Mr. WILLIAMS of Delaware. If the Senator from Maine will yield further, has he changed his mind since 1959? At that time we had up before the Senate a resolution which condemned the sale of mortgages in this way. At that time I notice that the Senator from Maine supported the resolution condemning this very practice on the ground that it represented an unnecessary cost to the taxpayers. I am wondering why the Senator has had a change of heart since that time.

Mr. MUSKIE. I am glad to reply to the Senator. He is correct if he says that my stand in 1959 as compared with at this time is a record of inconsistency, but I merely point out that, on the SBA measure which was before this body earlier this year, there was a record of inconsistency on both sides. I recall that on the vote in 1959 the vote on the Senator's side of the aisle was 29 to 3 against the position of the Senator from Delaware. The Senator from Delaware was able to convince only three Senators on his side of the aisle as to the merits of voting as he voted.

I think it is interesting to indicate that the Senator from Delaware had nothing to say on that proposal. Whether his silence at that time in comparison with his discussion this afternoon is inconsistent is for him to decide.

I may point out that in 1959 I had grave reservations about this particular device, although there was a difference in the amount, but the same fundamental question was involved. I am not quibbling over the difference as long as the Senator does not quibble over it. If neither one of us quibbles over the differences, then I will say I had grave reservations in 1959. Since that time I have become convinced that the growing loan money in the Government's portfolio of direct loans is a problem which must be dealt with.

I am persuaded that I was wrong with respect to the fundamental objective then and that my position now is right. Since the present administration is a Democratic administration, and the one involved at that time was a Republican administration, I can probably be accused of inconsistency directly attributed to party loyalty, but that is not the case. I have become convinced as a matter of merit.

Mr. WILLIAMS of Delaware. I feel at this time, as I did in 1959 under a Republican administration, that this is not the proper way to finance the Federal Government. I so voted at the time, as the Senator knows, and I shall vote in the same manner this time.

Mr. MUSKIE. But the Senator did not oppose it very vigorously then.

Mr. WILLIAMS of Delaware. I said it with the greatest vigor I know how—by a "no" vote.

Mr. MUSKIE. If the Senator from Delaware will confine himself to the

same kind of opposition at this time, and vote "no"——

Mr. WILLIAMS of Delaware. The Senator from Maine is making an eloquent argument. If he likewise will vote "no" I would be willing to have him forego his oratory.

Mr. MUSKIE. Is the Senator ready to go to a vote this afternoon?

Mr. WILLIAMS of Delaware. If we can win. I am always ready to go to a vote when I think we have the votes. The man who is now in the White House then led the fight as a Senator against this same procedure. It was argued then that this was an expensive way to finance the debt, that it was confusing, and that it was a way to dodge and avoid showing what the true deficit was. I agreed with Mr. Johnson at that time. I agreed with him that the purpose was to try to camouflage from the American people the true deficit. The only difference is that in 1959 we were under a Republican administration, and today we are under a Democratic administration. But it is still wrong. I wish the Senator from Maine would follow that same argument which his party advanced in 1959, and let us defeat it overwhelmingly.

Mr. MUSKIE. The then majority leader was not persuasive with 29 Members who voted on the other side of the position taken by the Senator from Delaware in 1959. Those Senators were not persuaded by the position of the Senator from Delaware until the Small Business Administration bill came to this body a few weeks ago. So there is a record of inconsistency on both sides of the aisle; almost 100 percent.

Mr. WILLIAMS of Delaware. No, not quite. I voted against this proposal in 1959 and will vote against it again today.

Mr. MUSKIE. Let us get it straight.

Mr. WILLIAMS of Delaware. I am hoping that merely because this method is now proposed by a Democratic President, Members of the Senate on that side of the aisle will not all click their heels and follow what the President wants. I hope they will examine the merits of this measure and realize that there is no difference fundamentally between what the issue was in 1959 and what it is now. As an example of what it is costing, it has been brought out that the American taxpayers will have to pay one-half of 1 percent additional in interest rates.

Mr. MUSKIE. May I just make a reply to what the Senator has just said?

Mr. WILLIAMS of Delaware. Yes.

Mr. MUSKIE. I would urge the Senator, if consistency is the objective for which he now argues, to persuade the colleagues on his side of the aisle to prove their consistency.

Mr. WILLIAMS of Delaware. I am not dealing with consistency. We are debating a \$33 billion sale of Government assets. When the Senator from Maine said that Senators have changed their positions 100 percent, I point out that I have not changed my position today.

Mr. MUSKIE. I suggest it is inconsistent that when there is a Republican administration in office, the Senator

from Delaware is strangely silent, and merely casts a "no" vote, as he did in 1959; and yet today he is articulate on the subject. I say that is being inconsistent.

Mr. WILLIAMS of Delaware. If the Senator will look at the remarks I made at that time he will see that when the Secretary was before the Finance Committee I joined the chairman of our committee and condemned the Secretary of the Treasury for endorsing exactly what the Johnson administration now proposes. The Secretary was before our committee to request an increase in the national debt ceiling. The amounts are different, but the principle is the same. The amount involved was \$335 million.

Mr. MUSKIE. There is no quarrel with that——

Mr. WILLIAMS of Delaware. Here we are dealing with \$33 billion. So there is a difference there.

Mr. MUSKIE. May I say to the Senator on that point that it was not just \$335 million involved in 1959. The administration had authority to deal with much more money.

Mr. WILLIAMS of Delaware. I agree with that.

Mr. MUSKIE. So if we are going to talk about this, let us not talk about \$335 million. Let us talk about whether the same kind of contention was made in 1959. I do not have that figure, but it was several billion dollars.

Mr. WILLIAMS of Delaware. I agree as to authority.

Mr. MUSKIE. The Senator is talking about the authorization figure. I said on the floor we were talking about \$4.7 billion for fiscal 1967, a part of which would be covered under existing authorization without the need for the passage of this bill. We are not talking about \$33 billion. If the Senator wants to talk about \$335 million we will talk about that also and not about \$33 billion, but that part of the \$4.7 billion we were discussing for 1967.

Mr. WILLIAMS of Delaware. Thirty-three billion dollars is in the figure.

Mr. MUSKIE. It is not the figure I quoted. I have not used that figure.

Mr. WILLIAMS of Delaware. I have, but whether it be \$335 million or \$33 billion we have substantially the same principle. It is not identical, but it is substantially the same principle involved.

Mr. MUSKIE. That is one point on which we agree thus far in the colloquy.

Mr. WILLIAMS of Delaware. I was voting against it in 1959, and I shall vote against it this time.

I agree fully with what the then majority leader, the man who is now in the White House, said at that time. It was argued then that it was a method of camouflaging a direct deficit. Under the Eisenhower administration it was such a vehicle, and today it is the same camouflage multiplied tenfold.

Mr. MUSKIE. To complete the record on the inconsistency issue, I have before me a record of the vote on the sale of participations in the SBA loan. On the vote to recommit, 26 Republicans voted "yea"—which I interpret, since we agree that the 1959 issue is fundamen-

tally the same as this issue—there were 26 Republican "yeas" contrasted with 29 Republican votes on the other side of the issue in 1959. There were no Republican "nays" on this vote on the SBA loan pool.

I admit my own inconsistency and I undertook to explain that. My credibility on that point may not satisfy the Senator from Delaware any more than I can help entertain such reasons for his silence in 1959, which is in some contrast to his figures articulated here this afternoon.

Mr. WILLIAMS of Delaware. The Senator will admit in 1959, on vote No. 177, taken on August 20, 1959——

Mr. MUSKIE. The Senator voted "no."

Mr. WILLIAMS of Delaware. I was joined in that "no" vote by the Senator from Maine and the Senator from Texas, Mr. Johnson, along with 100 percent of the Members on his side—I do not believe any of them voted the other way. We voted for the resolution to condemn this practice as an unsound and misleading method of camouflaging the true deficit. It does not represent "truth in Government."

Mr. MUSKIE. Does the Senator condemn those on his side of the aisle who are inconsistent in 1966——

Mr. WILLIAMS of Delaware. I am not condemning anyone.

Mr. MUSKIE. With their votes in 1959?

Mr. WILLIAMS of Delaware. We are not censuring Members of the Senate.

Mr. MUSKIE. Would the Senator chastize them the same way he did the President of the United States?

Mr. WILLIAMS of Delaware. No. I am merely stating the record. Perhaps they had a change of heart.

Mr. MUSKIE. Other Senators have, and that seems to be a virtue on this issue.

The Senator from Delaware may stand as the only Senator on this issue when the vote is over.

Mr. WILLIAMS of Delaware. No. For example, there is a member of the committee who filed minority views on this same bill who was consistent through the vote.

Mr. MUSKIE. I am for consistency, when it is a virtue.

Mr. WILLIAMS of Delaware. The Senator from South Carolina signed the minority views against the bill. He voted similarly in 1959.

Mr. MUSKIE. So we are going to have two consistent Senators when this vote is over.

Mr. WILLIAMS of Delaware. I pointed out that this bill will cost one-half percent more in interest charges to the taxpayers. Since that time authority to sell the SBA notes has passed and a block of FNMA mortgages have been sold at a cost of six-tenths of 1 percent more to finance. That means, if there are sold another \$8 billion it is going to cost the American taxpayers several million dollars more to finance the Federal Government than it would if it were done in the normal manner. At the same time this would reduce the true amount of the deficit.

Mr. MUSKIE. Mr. President, we are departing a little bit from where we were in my speech when we engaged in this colloquy, but it is interesting to pursue the points raised by the Senator from Delaware.

I indicated earlier in colloquy that the Senator and I would undoubtedly disagree as to the cost of the program. I base that comment on the table which he put in the RECORD in the course of the debate on the SBA program.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. MUSKIE. In that table he undertook to compare actual costs of FNMA, participation with the interest rate on outstanding treasuries.

I am assured by the Treasury that if there had been no offerings of treasuries

at that time, in the unsettled state of the market, those rates would have been higher than those in the table of the Senator from Delaware.

I have two tables and I would be glad to put them in the RECORD so that the Senator from Delaware may digest them between now and the next time this matter is taken up.

I have a table on yields on selected issues of securities, based on market prices of April 29, 1965. The source is the Morgan Guaranty Trust Co. Bond Department.

Mr. President, I ask unanimous consent that these figures may be inserted in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Yields on selected issues of securities, based on market prices, Apr. 29, 1965

[In percent per annum]

Direct obligations			FNMA participation certificates		
Maturity date	Coupon rate	Yield to maturity at bid price	Maturity date	Issue yield	Yield to maturity at bid price
Nov. 15, 1967	4 $\frac{7}{8}$	4.96	Apr. 1, 1967	5.40	5.12
Aug. 15, 1971	4	4.88	Apr. 1, 1971	5.50	4.99
Aug. 15, 1973	4	4.87	Apr. 1, 1973	5.50	5.03
Feb. 15, 1980	4	4.68	Apr. 1, 1981	5.25	5.07

¹ When issued.

Source: Morgan Guaranty Trust Co., bond department.

Mr. MUSKIE. On short-term treasuries, the coupon rate for securities with a maturity date of November 15, 1967, was 4 $\frac{7}{8}$, and the yield to maturity at the bid price was 4.96. That is short-term securities.

On participation securities, from 1967 to 1981, the issue yields were 5.4, 5.5, and 5.25, but the yield to maturity at market prices for comparable securities was 5.12, 4.99, 5.03, and 5.07, compared with the 4.96 on short-term treasuries.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. MUSKIE. The Senator may look at those tables.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield on that point with regard to the table?

Mr. MUSKIE. I yield.

Mr. WILLIAMS of Delaware. What yield did they have quoted for bonds maturing in 1980 and 1981?

Mr. MUSKIE. 4.68 on Treasuries.

Mr. WILLIAMS of Delaware. That is correct.

Mr. MUSKIE. On FNMA participation certificates—5.07 percent.

Mr. WILLIAMS of Delaware. That is a difference of 0.7 on the longest and about 0.4 on the short terms.

Mr. MUSKIE. But treasuries cannot be issued on the long term.

Mr. WILLIAMS of Delaware. Now we are getting to the point at issue.

Mr. MUSKIE. It is a point that I am not trying to dodge.

Mr. WILLIAMS of Delaware. There is a legal ceiling of 4 $\frac{1}{4}$ percent on Government bonds maturing beyond 5 years. The administration, under the guise that it is promoting cheaper interest rates, does not want to ask Congress to remove this artificial ceiling so they are in effect selling only short-term Government bonds. Not only is this monetizing the debt, but it is costing more than if they would repeal that ceiling and sell in normal channels.

Under this bill they can dodge this ceiling and sell 15- and 20-year participation certificates. Thus they get around the ceiling on interest rates and get around the responsibility of reporting the true deficit, but as far as the taxpayer is concerned they are paying 5.60 percent interest.

Mr. MUSKIE. The increased cost is also involved in the direct sale of assets which President Eisenhower in several budget messages urged upon Congress, and which the minority in the House Ways and Means Committee in 1963 urged upon the Congress.

They were not concerned about the 4 $\frac{1}{4}$ -percent ceiling. They urged direct

sale of these direct loans to avoid increasing the debt ceiling.

This was the argument made by the minority in the House of Representatives.

The minority spoke for both sides of Congress. It was a different tone. I shall read from the minority views of the House Ways and Means Committee report, 88th Congress, 1st session—May 1963—to provide temporary increases in public debt limit.

The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets.

For example, when the Secretary of the Treasury was before the committee on February 27, we suggested that it was incumbent upon the administration to show "good faith" before coming to the Congress for an additional increase in borrowing authority. We pointed out that the Government held about \$30 billion in loans, many of which were readily marketable. In fact, there was a very good market for many of these loans. Instead of increasing its offering of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in its borrowing authority.

The Senator from Delaware said earlier the proposal in 1959 and this proposal were fundamentally alike; that they involved direct sale of Government paper, but they are fundamentally alike.

We can say that the admonition given to the administration by the minority of the House Ways and Means Committee in May 1963 supports this legislation. That report was signed by the following members of the minority: JOHN W. BYRNES, HOWARD H. BAKER, THOMAS B. CURTIS, VICTOR A. KNOX, JAMES B. UTT, JACKSON E. BETTS, BRUCE ALGER, STEVEN B. DEROUNIAN, HERMAN T. SCHNEEBELI, HAROLD R. COLLIER.

There has been no attempt to describe this as not involving some cost. Of course, it involves cost, just as direct sales involve cost. Does this mean we should hang onto these loans forever and never attempt to sell them on the market, because they involve some cost to the Treasury to free these public moneys for use in other desirable programs? Of course it involves cost. The Senator from Delaware and I disagree up to this point on what that cost is.

The Senator has placed his figures in the RECORD and I have submitted some. I now offer another table and ask unanimous consent that it be included in the RECORD. I invite the Senator's examination of this table.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Yield differentials—Dealer quotes on FNMA participation certificate issue of Apr. 4, 1966, and direct Treasury issues for Apr. 22, 1966

FNMA participation certificates			Treasury issues—market yields	Participation certificates—Treasury yields, spread
Maturity dates	Coupon rates	Market yields		
Apr. 1, 1967	5.40	5.270	4.87	0.40
Apr. 1, 1968	5.45	5.140	4.89	.25
Apr. 1, 1969	5.50	5.260	4.89	.37
Apr. 1, 1970	5.50	5.050	4.85	.20
Apr. 1, 1971	5.50	5.120	4.82	.30
Apr. 1, 1972	5.50	5.095	4.87	.23
Apr. 1, 1973	5.50	5.120	4.87	.25
Apr. 1, 1974	5.50	5.130	4.83	.30
Apr. 1, 1975	5.50	5.145	4.77	.37
Apr. 1, 1976	5.45	5.085	4.75	.33
Apr. 1, 1977	5.45	5.085	4.74	.34
Apr. 1, 1978	5.40	5.075	4.72	.36
Apr. 1, 1979	5.35	5.085	4.71	.37
Apr. 1, 1980	5.30	5.075	4.70	.38
Apr. 1, 1981	5.25	5.060	4.69	.37
Average				.32

NOTE.—Market yields shown are calculated from the mean of bid and asked price quotations. Treasury market yields are interpolated from calculated yields on specific issues for various dates.

Source: Office of the Secretary of the Treasury, Office of Debt Analysis, May 2, 1966.

Mr. MUSKIE. Mr. President, it is important to nail down the cost. It is important that we not minimize it and that we not exaggerate it. I have no desire to distort the record on this issue. I believe that when the record is clear and when the Senator and I fully understand our opposing points of view, he and I are going to disagree as to its wisdom. Nevertheless, I think it should be clear.

There is an additional cost. We can agree on that point, which is the second point we have agreed on this afternoon. How much that cost will be is the question.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. MUSKIE. I yield.

Mr. WILLIAMS of Delaware. The Senator is correct about the minority views that were filed in 1959, and I am familiar with them. But that does not mean that I agree with those views.

When this question was before the Committee on Finance, the chairman of the committee, the former senior Senator from Virginia, Mr. Byrd, led the fight against this proposal, and I joined him at that time, as the record will show, in condemning it. I did not go along with the minority views when they were before the committee, and the Senator from Virginia led this argument.

I still say that there may be arguments on both sides, but I still feel, as I did in 1959, that this is not the proper way to finance the Federal debt. We both agree that it is going to be more expensive. I will admit that neither of us can project into the future and tell exactly what the higher cost will be. All we can do is to look at what happened in the past.

The one sale to which I referred perhaps was higher than the average, but that one sale averaged better than one-half of 1 percent. Perhaps later this will come closer to one-quarter of a percent, as the Secretary of the Treasury projected. No one knows. But why pay this one-quarter of 1 percent when it is not necessary? That is the point I am making. One-quarter of 1 percent is \$2½ million for each billion dollars, and if the Government sells \$8 billion worth of bonds it is putting out \$20 million a

year. Why pay this extra interest? The money goes to no source except the banking industry. There is no advantage in this situation to the taxpayers, and it is an unnecessary cost.

In addition, the American people are given a false sense of security by being led to believe that the Government is operating and paying for the cost of all these Great Society programs without creating a deficit. We are creating a deficit. The Senator will admit, I am sure, that if we sell \$1 billion of these bonds under this formula it will reduce the reported deficit to the American people by exactly that same amount; it will reduce the amount of the national debt by that much as is reported to the public.

Mr. MUSKIE. To the best of my knowledge, all of the obligations of the Federal Government never have been totally reflected in the figures in the national debt.

In connection with the FHA, there is a contingent liability, which we are not worried about, because the FHA-guaranteed loans have been good. The default experience has been good. Nevertheless, it is an obligation.

If the Senator wants to be technical about it, the Government sold this paper directly all during the administration of President Eisenhower. That had the same effect. As a matter of fact, the purpose of the \$335 million proposal in 1959 was to reduce the impact on the Federal debt ceiling. The Senator knows this.

Mr. WILLIAMS of Delaware. The Senator misunderstood my question. Perhaps I did not state it clearly. My question is: Does not the Senator agree with me that to the extent that bonds were sold under this formula or under the formula used by the other administration—I am not distinguishing between them—for each \$1 billion we sell it would have the net effect of reducing by exactly that much the deficit as it is reported at the end of the fiscal year? It also reduces the necessity of increasing the national debt by that much. That is the point. Whether we sell \$1 million worth, \$1 billion worth, or \$10 billion worth, the reported national

deficit of the Government is reduced. Is that not true?

Mr. MUSKIE. Let me describe the other side of the situation; then I will answer the Senator's question.

When the loans are made, and when appropriation is made for them, the total amount is included as expenditures.

Mr. WILLIAMS of Delaware. That is true.

Mr. MUSKIE. Even so, it is a capital expenditure, although it is going to be repaid.

So if it is proper to include the amount as an operating expenditure when it is made, it is appropriate to give a credit against that expenditure when it is sold as it is under this bill.

Mr. WILLIAMS of Delaware. I am not questioning the propriety of the method. I am merely trying to get it straight.

Mr. MUSKIE. I believe I can set the record a little straighter this way than by answering the Senator's question "Yes" or "No."

Mr. WILLIAMS of Delaware. If the Senator were to answer the question he would agree with me that the only answer he could give would be "Yes," that the reported deficit of the Government is reduced by the exact amount by which the bonds are to be sold.

Mr. MUSKIE. I do not think the deficit will be reduced. It will be offset by the receipt of an asset.

Mr. WILLIAMS of Delaware. Now we are in complete agreement. The deficit would not be reduced 1 penny although it would appear to be when reported by the administration.

Mr. MUSKIE. We are not in agreement as to the words and the emphasis the Senator uses.

Mr. WILLIAMS of Delaware. The Senator spoke my thoughts better than I could.

Mr. MUSKIE. I could not do that.

Mr. WILLIAMS of Delaware. I agree that it does not reduce the deficit. It merely covers up the amount of the deficit so that the American people will not know the true deficit. In other words, if there is a \$5 billion deficit normally, and an extra \$5 billion of bonds is sold, a balanced budget can be reported under this system. That is misleading the American people.

Mr. SALTONSTALL. Mr. President, will the Senator yield, partly for a question and partly for an observation?

Mr. MUSKIE. I yield.

Mr. SALTONSTALL. I recently joined in the debate on this problem with relation to small business. Without going into a long discussion at this time, I invite the Senator's attention to S. 1013, a bill which I introduced and which the Senate passed several months ago. Although the bill has been passed by the Senate, it has been held up in the House Ways and Means Committee, because the Treasury Department is not in favor of it.

I believe the bill is of value because it affords an opportunity to know what the full debt—the full liability of the Government—of the Government may be.

The statutory debt, as the Senator knows, is approximately \$320 billion. I invite the Senator's attention to that un-

disclosed or unreported debt. I cite only two or three examples, because I do not want to burden the Record with many.

As of June 30, 1962, the total loans guaranteed or insured by the Government agencies amounted to \$60,792 million, and they had on hand to offset that \$725 million.

That is one set of figures that I give the Senator. Then on the annuity and pension systems of the Civil Service, the Federal Government, as of March 7, 1966, had an actuarial deficit of \$37,738 million.

Without debating the merits of the bill, which I did debate with relation to the small business loans—which involves the same principle—I believe that we should have some knowledge periodically, on either a semiannual or annual basis, of the undisclosed or nonstatutory debt of the Government. This debt involves a very substantial figure.

The Committee on Finance reported the bill twice. The bill was passed by the Senate twice. I hope that before this session of Congress is concluded the bill, either in its present form or in a different form, will be passed by Congress and sent to the President.

This would give the people of the country as well as Members of Congress information on the total obligations of the Federal Government.

By carrying out the purpose of the bill, we would increase the undisclosed or nonstatutory debt of the Government. I shall not argue that question any further today. However, the purpose of the bill is to give us knowledge of the debt. As I understand it, the bill that the Senator from Maine is advocating would increase the undisclosed and unreported debt of the Government.

Mr. MUSKIE. Mr. President, S. 1013 has a most laudable objective. However, it should be pointed out that the kinds of programs we are discussing with respect to the pending bill are fully disclosed. For example, the Bureau of the Budget each year issues special Analysis E, a 14 page booklet disclosing the Federal credit programs.

On the very first page appears a chart which indicates, over the period from 1956 to 1967, the annual growth of direct loans outstanding, the growth in the amount of new commitments made each year for direct loans and for guaranteed and insured loans. The growth indicated for the guaranteed loan has been sharper and larger than that for the direct loan program.

Mr. SALTONSTALL. What is the total figure?

Mr. MUSKIE. The total figure for commitments for 1967, which is an estimate, is \$36.3 billion.

Mr. SALTONSTALL. That certainly is not the full obligation of the Federal Government.

Mr. MUSKIE. On page 57 of that analysis is a listing of all of the outstanding direct loans and guaranteed and insured loans for major Federal credit programs, classified by agency or program. In that table, the 1967 estimate of guaranteed and insured loans is \$108 billion.

Mr. SALTONSTALL. In addition to that, the nonstatutory debt of the Government includes all the actuarial deficits relating to pensions and so forth.

Mr. MUSKIE. The Senator is correct.

Mr. SALTONSTALL. I believe we should have a record once or twice a year of the total obligations of the Government.

Mr. MUSKIE. I believe this analysis is such a record. However, the Senate obviously desires it in a different form. I would have no objection to that.

Mr. SALTONSTALL. I desire a full report which would include all actuarial deficits, which are responsibilities of the Federal Government.

Mr. MUSKIE. I understand the point of the Senator and I would agree.

Mr. SALTONSTALL. I debated the same question with relation to the small business loans for the same reason that I believe the Senator is now advocating the pending bill, to give the Government a chance to sell to banks and private individuals, through certificates, some of its obligations.

Mr. MUSKIE. I thank the Senator.

The PRESIDING OFFICER (Mr. MONDALE in the chair). The Senator from Louisiana is recognized.

Mr. LONG of Louisiana. Mr. President, I do not believe we would have much of a problem involved here if the Government were to keep a dual-entry set of books, as any private business would do.

We have heard a lot of conversation about the debt we owe, and the Government does owe quite a bit of debt. However, if one were to borrow some money from a bank, he would submit a statement of his net worth. He would first list his assets and then his liabilities. He would subtract his liabilities from his assets and come up with a figure of net worth, if that is an accurate statement.

Unfortunately, for one reason or another, we are required by laws passed over the years to record nothing but liabilities. The statement does not list the assets of the Government or attempt to keep up with the assets.

If the Senator were to try to make a decision on whether to put more money in his business or borrow more money or invest more capital or have stock issued for the purpose of going into any venture, the first thing he would want to know is his financial worth, or assets over liabilities.

I insisted on amending the Saltonstall proposal to provide that, in addition to knowing what all these contingent liabilities are, we should have a list of the contingent assets.

I suspect that we would find that approximately \$75 billion of the assets are assets which the U.S. Government owes to the U.S. Government. We would list them as assets.

If we compared the financial statement of the Senator from Maine—

Mr. MUSKIE. Mr. President, I am not sure that I would want my financial statement to be compared with that of the U.S. Government.

Mr. LONG of Louisiana. If the Senator were to own a small bank and all

the bank stock, and if the bank were to owe the Senator \$100,000 because the Senator had that much money on deposit in the bank, as far as the Senator would be concerned, that would be \$100,000 that he owed to himself.

Approximately \$75 billion of the national debt consists of obligations that the United States owes to the United States. That is a rather ridiculous way of counting up the national debt, since \$75 billion is offset immediately.

The last time that I looked into the situation, approximately \$25 billion in bonds were held by the Federal Reserve Board. The Federal Government owns the Federal Reserve Board. That \$25 billion consists of assets of the U.S. Government. Yet that is counted as part of the debt.

There is approximately \$50 billion in trust funds. These trust funds are supported by regular contributions of employees, and taxes are levied by the Government.

It can be argued that we have contingent liabilities which the balances on hand support, but we do not propose to reduce the amount in the funds. We propose to increase the amount. It will have to be increased as interest payments coming out of general revenue, or the funds will have to be increased by taxes or employee contributions.

In any event, to the extent that we hold the \$50 billion, we are that much ahead of where we would be if we did not have that amount on hand. That is \$75 billion of national debt that the Federal Government owes to the Federal Government.

In addition to that, no one ever bothers to put down what the value of our physical assets are. We have many physical assets. The real estate values alone, if one looks at the value of the land that we hold and the improvements that have been placed on the land, would greatly exceed the amount of the national debt in that one item alone—real estate value plus improvements on real estate that the Government owns.

I understand that that item is on the books as acquisition cost. The Louisiana Purchase, for example, was only 3 cents an acre. We debated the tidelands off Louisiana and the Senator from Louisiana had a grossly inflated idea of its cost, but it is still worth a great deal of money.

Mr. DOUGLAS. Mr. President, I point out to my good friend, the Senator from Louisiana, that we forced him and his cohorts to let the Federal Government have the rights to the oil beyond the 3-mile and 3-league limit out to the edge of the Continental Shelf. That action has already brought \$900 million to the Federal Government and \$900 million is now in escrow, which will come to the Federal Government. In all, it is now predicted that \$30 billion will come to the Federal Government from royalties on the oil taken from the Continental Shelf. That is a very real asset and source of revenue.

Mr. LONG of Louisiana. I believe the Senator's figure is very much exaggerated, but I would be willing to concede

that the resources beneath the sea off the submerged lands are worth a great deal of money, and it will run into billions of dollars, although I would not be so optimistic as to think their value would be \$30 billion, as the Senator has suggested. But that goes down in the books at zero value.

Mr. DOUGLAS. That is correct.

Mr. LONG of Louisiana. As a matter of fact, as of now, the Government does not even get the benefit of the revenues coming in from it, because there is still litigation pending, and the final settlement has not yet been made. So even what comes in does not go down on the books.

But if we simply had an honest statement, such as a bank would have, as to what the assets and liabilities are, we would be looking at a net worth picture which would make everybody happy. Instead, we have only a statement in negative terms, with the result that we have to have laws such as this to try to offset some of the mischief contrived down through the years to make it look as though the Government is hopelessly bankrupt, when the Government is in fact wealthier than all the other governments of the world put together—certainly wealthier than all the governments of the free world put together—and our assets over liabilities are greater now than they have ever been.

Mr. DOUGLAS. I heartily concur in what my good friend the Senator from Louisiana has said. The value of real and personal property owned by the Government is approximately \$325 billion at original cost, with no allowance for the oil and gas rights beneath the Gulf of Mexico and off the coast of California.

In addition to that, there is the shale oil under the public lands on the western slope of the Rockies. The Geological Survey estimates that there are 2 trillion barrels of oil equivalent there in deposits yielding more than 10 gallons per ton of shale—not a million, not a billion, but 2 trillion barrels of oil. At the current price of approximately \$2.85 a barrel, these deposits could yield oil worth approximately \$5.7 trillion.

Eighty percent of these reserves, or perhaps \$4.56 trillion worth, is owned by the Government. We got these areas as a result of the Mexican war—on the whole, I think, an unjust war; but we paid the Mexican Government \$15 million in settlement, and we took about a third or half of the Mexican Republic in return.

Now, at one-eighth royalties, on the oil taken from the shale under Government-owned land, we would have revenues of approximately \$570 billion, \$250 billion more than the total of the national debt. I have introduced a bill to insure that the people obtain the full value—to be sure that we have no Republican Teapot Domes on that oil—and to devote the revenues to the payment of the national debt. Of course, the processes for extracting the oil from the shale are not

perfected, but we are in hot pursuit of doing so and there is every reason to believe the technology will be perfected ultimately. Moreover, the extraction would be according to need so that the effect on prices would not be to completely depress them. And in any case the reserves are so large that even at a substantially lower price there would be enough revenue to cover the debt. So this may be a painless way of eliminating the national debt; and our friend the Senator from Delaware [Mr. WILLIAMS] should take full cognizance of the vast assets we have as a Nation and cease to be a Cassandra.

Mr. LONG of Louisiana. Mr. President, may I suggest to my friend the Senator from Illinois that I believe he likewise has overstated the value to the United States of those resources, for the reason that if we produced all that oil, my guess is the price of oil would go down very much, because the increase in supply would very drastically reduce the price of the product.

But even so, it is a very vast asset, and as the Senator has correctly stated, all the property of the Government is stated at so-called acquisition cost. If one considered the actual present-day value of those properties, it would be far greater, perhaps even several times greater, than the acquisition cost stated on the books.

Mr. DOUGLAS. The acquisition cost of the shale oil reserves in the Rockies could not exceed the \$15 million paid to Mexico.

Mr. MUSKIE. Mr. President, I thank my friends from Illinois and Louisiana for their helpful interjections. It is reassuring, from time to time, to receive a little support on this side of the aisle, as well as comments on the other side.

It is my desire to make the RECORD clear. I have no intention whatsoever to distort the RECORD. I want the essential nature of this bill to be understood, and how it would operate; and I think when it is understood, the good sense of the proposal will make itself evident.

That is my position this afternoon, Mr. President, and any comments, observations, or information from either side of the aisle which contributes to that end I am eager to have in the RECORD.

Mr. WILLIAMS of Delaware. Just one question; I understand consideration of the bill is going over until Thursday.

I notice among the assets listed in the committee report to be sold is an item—Treasury Department, foreign loans, \$3,763 million.

Does that include the debt owed by the British Government, totaling about \$3 billion loaned that country around 1946? Do I understand that under the proposed legislation the Treasury Department could discount that note?

Mr. MUSKIE. Technically, that is why it is listed, but there is certainly no intention—

Mr. WILLIAMS of Delaware. I am just asking if that note, representing

around a \$3 billion obligation which the British Government owes and which was borrowed back around 1945, could be one of the items sold?

Mr. MUSKIE. This is the item described as foreign loans?

Mr. WILLIAMS of Delaware. Yes.

Mr. MUSKIE. Three billion seven hundred and sixty-three million dollars; that is the item to which the Senator refers? Yes; this is described in the table as "Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program."

Mr. WILLIAMS of Delaware. One further question on that. Since that loan could be discounted or sold, if we sold that note to the banking industry at the 5 percent, or 5.25, whatever percent we may pay for the discounting provision, it would still have a guarantee of the U.S. Government to pay this participation certificate should the loan default, would it not?

Mr. MUSKIE. There is no intention whatsoever to deal with that particular loan under this bill.

Mr. WILLIAMS of Delaware. But if the loan were sold—

Mr. MUSKIE. The Senator is posing a hypothetical situation which I cannot conceive.

Mr. WILLIAMS of Delaware. Suppose we strike that authority out of the bill, then, because it is in the bill.

Mr. MUSKIE. There is no intention, for example, to undertake to include the foreign aid loans, the soft loans, and so on. There is no intention to program that under this bill whatsoever.

Mr. WILLIAMS of Delaware. Well, suppose we amended the bill and confined it only to those loans which are intended for resale, because the bill as drafted does give the administration authority to sell the full \$33 billion listed, including this war debt that is owed to the U.S. Government.

Mr. MUSKIE. May I say to the Senator that under the bill as drafted, the specific loans and the specific size of participation sales must be approved by the Appropriations Committee of the Congress. There is absolute congressional control on every item listed in the table to which the Senator is referring.

I will be happy to put in the RECORD at this point the participation sales which the administration anticipates would be programmed under this bill for fiscal years 1965, 1966, and 1967, that is, those that have been programmed under existing legislation and those that would be programmed under this proposed legislation for those fiscal years.

That will give you some idea of the loans that the Treasury has in mind.

Mr. President, I ask unanimous consent to have this table printed in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Outstanding loans and other financial assets owned by Federal agencies, June 30, 1965, and June 30, 1966

[In millions of dollars]

Agency and program	Actual as of June 30, 1965	Esti- mate as of June 30, 1966	Agency and program	Actual as of June 30, 1965	Esti- mate as of June 30, 1966
1. Substantial sales (and private refinancing) of the following types of assets are underway or are now planned under proposed participation sales legislation. (Remainder is less attractive to buyers or must be retained to provide excess pool coverage or to help carry out program requirements):			3. Limited future sales or private refinancing—Con.		
Department of Agriculture: Farmers Home Administration.....	1,990	2,054	Department of Health, Education, and Welfare:		
Department of Defense: Military assistance credits ¹	79	40	Defense education loans.....	536	692
Department of Health, Education, and Welfare: Academic facility loans.....	2	66	Public Health Service.....	13	38
Department of Housing and Urban Development:			Department of Housing and Urban Development:		
Federal National Mortgage Association ²	2,121	1,427	Public housing programs.....	60	59
Federal Housing Administration ³	527	490	Housing for elderly or handicapped loans.....	95	151
College housing loans.....	1,927	2,170	Urban renewal loans.....	196	214
Public facility loans.....	184	206	Treasury Department: Loans to District of Columbia.....	139	149
Veterans' Administration:			General Services Administration.....	158	166
Direct loans.....	1,145	498	Subtotal.....	1,449	1,800
Vendee loans.....	504	370			
Export-Import Bank.....	2,490	2,091	4. No feasible method of making major sales of the following types of assets is now apparent (because of (a) intergovernmental agreements, (b) repayments in foreign currencies, (c) very low or nominal interest returns and/or (d) questionable investment quality):		
Small Business Administration.....	1,147	1,072	Department of Agriculture: Rural Electrification Administration.....	4,072	4,262
Subtotal, salable assets.....	12,116	10,484	Department of Housing and Urban Development: Public works planning advances.....	64	63
2. Sales of certificates against pools of crop support loans (maturing annually in August) provide short-term substitution of private for public credit, but any considerable expansion would require substantial increases in interest rates:			Department of the Interior: Reclamation loans.....	90	105
Department of Agriculture: Commodity Credit Corporation (subtotal).....	2,115	1,874	Department of State:		
3. Limited future sales or private refinancing of some of the following types of assets may prove feasible (but will probably require (a) larger discounts or supplementary payments than previously planned, (b) removal of statutory prohibitions on sales and/or (c) volume sufficient to warrant sales effort):			Agency for International Development.....	8,997	10,510
Office of Economic Opportunity.....	17	47	Loans to United Nations.....	107	119
Department of Commerce:			Treasury Department: Foreign loans.....	3,763	3,728
Economic Development Administration.....	126	183	Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation.....	131	156
Maritime Administration.....	109	101	Subtotal.....	17,224	18,943
			Total.....	32,904	33,101
			Minor programs not included above.....	150	175
			Grand total.....	33,054	33,276

¹ Sales by Export-Import Bank of military assistance loans transferred from Defense are included in the Bank's total sales.² Excludes secondary market operations trust fund.³ Sales by Federal National Mortgage Association of FHA-owned loans transferred from FHIA are included in FNMA total sales.⁴ Revised from original 1967 budget estimate of \$33,111,000,000.

Mr. MUSKIE. Mr. President, since we are talking about specific loans that may or not be involved, there has been some discussion why the legislation has been pending before the committee as to veterans loans. I, therefore, ask unanimous consent to have printed in the RECORD letters from the Veterans of Foreign Wars, the Disabled American Veterans, the American Legion, and AMVETS, in support of the proposed legislation.

There being no objection, the letters were ordered to be printed in the RECORD, as follows:

VETERANS OF FOREIGN WARS
OF THE UNITED STATES,
Washington, D.C., April 29, 1966.

Senator EDMUND S. MUSKIE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MUSKIE: The Participation Sales Act of 1966, S. 3283, currently before the Senate has been reviewed by national officers and staff personnel of the Veterans of Foreign Wars of the United States.

The Veterans of Foreign Wars of the United States believe that the proposed Participation Sales Act of 1966 will be of benefit to veterans desiring VA direct or guaranteed loans in the future.

The favorable effect of participation by private capital on Government loan program financing in the marketing of \$925 million in direct loans and vendee accounts by the Veterans' Administration. This has extended the limit of credit to permit thousands of additional loans to veterans without Treasury borrowing.

As intended, and as provided in the proposed legislation agency control of individual loans will not be impaired. The Veterans of Foreign Wars believes this to be an abso-

lutely essential stipulation to insure that veterans will continue to deal only with the Veterans' Administration with respect to current or future VA direct loans which may be committed to pool as security for participations to be sold for the purpose of substituting private capital for Federal funds and credit.

It is of manifest importance to veterans and to this organization that the veterans loan program funding as administered by the VA not be burdened by deficiencies resulting from inclusion of lower interest rate hearing loans of other Federal agencies. Each agency should be obligated to the fund for whatever deficiencies are attributable to their respective utilization of this procedure of selling assets. It is believed that the proposed legislation satisfies this requirement.

While the VA direct loan revolving fund is now clearly adequate to meet current needs, it is conceivable that in the future additional funds will be necessary to meet the increased demand for direct VA loans by qualified veterans in areas of direct loan eligibility. Increased marketing of VA mortgage assets through the pooling device conceived in the proposal under discussion would doubtless make more funds available for VA direct loans. Likewise, the loan guarantee revolving fund for payment of claims resulting from defaults on VA guaranteed private loans would be replenished and stabilized, thus insuring prompt payment of all proper claims to lending agencies, encouraging them to continue to participate in the guaranteed loan program.

Therefore, the Veterans of Foreign Wars of the U.S. recommends enactment of the proposed Participation Sales Act of 1966.

Sincerely,

ANDY BORG,
Commander in Chief.

DISABLED AMERICAN VETERANS,

April 29, 1966.

HON. EDMUND S. MUSKIE,
Committee on Banking and Currency,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MUSKIE: The Senate Committee on Banking and Currency, of which you are a member, is currently holding hearings in connection with S. 3283, to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

The Participation Sales Act of 1966 will encourage greater use of this country's private capital assets in financing education and the general welfare through loan programs. One of our country's major lending programs is that authorized by veterans legislation.

The Disabled American Veterans (DAV) supports only that legislation which is designed for the benefit of those veterans who have incurred disabilities as a result of honorable service in the Armed Forces. Recognizing that adequate financing is a foundation of any continuing program, a review of this act shows that it warrants our endorsement.

The provisions of this act have been tested and proved by a Veterans' Administration lending program in which numerous members of the DAV have participated. This includes guaranteed loans and direct loans to disabled veterans, and the special program for partial Federal financing of special homes for certain disabled veterans. These are part of one of Government's largest lending programs, administered by the VA, which has sold almost \$1 billion loans to private capital. The Participation Sales Act of 1966 would extend the same privilege of "pooling" loans to other Federal agencies.

We find that the new act in no way changes the veterans program administration, and that the VA will continue to deal directly with the veteran. It provides selling of mortgage loans through the Federal National Mortgage Association, which acts as marketing agent for the loans to private capital. This, in turn, permits use of the capital from sales of the loans. The VA experience has shown that this practice has allowed loans to thousands of additional veterans.

The DAV support of the President's policy of defending freedom against communism in Vietnam is unwavering, as is the support of necessary expenditures to fight the war. As veterans who have suffered at the hands of enemies who would deny our freedom, we best understand that the primary responsibility of Government is security of our country.

Since the provisions of this act strengthen the method of financing by our Government, and encourages private enterprise participation in the loan programs, it is consonant with the aims of the DAV.

The goals of the DAV remain consistent: Benefits for those who gave so much in service to their country. Adequate financing of those benefits is essential. Therefore, I urge you to support this legislation and its passage by Congress.

Sincerely,

CLAUDE L. CALLEGARY,
National Commander.

THE AMERICAN LEGION,
April 29, 1966.

Hon. EDMUND S. MUSKIE,
U.S. Senate,
Old Senate Office Building,
Washington, D.C.

DEAR SENATOR MUSKIE: This has reference to S. 3283, a bill to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies. I note that you, speaking for the Committee on Banking and Currency, reported the measure favorably, without amendment, on April 28, 1966.

I am advised that this bill would authorize Federal agencies administering credit programs to enter into agreements with the Federal National Mortgage Association, whereby that association would sell to private investors interest-earning shares, known as participation certificates, based upon a pooling of Government loan certificates. I am told that this plan, in effect, would serve to substitute private for public credit.

The Veterans' Administration has since 1964 used this technique to sell a substantial number of its veterans housing mortgages, under a similar authorization contained in Public Law 88-560. S. 3283 would encompass this authorization and extend it to include certain other Federal agencies.

The impact of the proposed legislation upon present VA operations is the primary concern of the American Legion. It is our understanding that the sale of participation certificates under the provisions of this bill would not give the purchasers any control over the programs under which the loans were made. The veteran would continue to deal directly with the Veterans' Administration, the agency which administers his housing loan program.

We have been assured by the Veterans' Ad-

ministration that the provisions of this bill will favorably affect the operations of the VA. Accordingly, the American Legion favors the enactment of S. 3283.

Sincerely yours,

L. ELDON JAMES,
National Commander.

AMVETS NATIONAL HEADQUARTERS,
Washington, D.C., April 29, 1966.

Hon. EDMUND S. MUSKIE,
Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR SENATOR MUSKIE: The President of the United States has called for passage of S. 3283, which if enacted into law, will permit greater use of private capital assets in financing education and general welfare through loan programs.

One of the major Government lending programs is authorized by the loan provisions of veterans legislation. The validity of the principle embraced in this proposed law has already been tested and proved by this veterans lending program. Since 1964, nearly \$1 billion in these loans have been pooled and marketed to private financial institutions through the Federal National Mortgage Association (FNMA). This has permitted thousands of extra loans to veterans without extra Treasury borrowing.

The act would permit the same practice by other Federal agencies, in permitting pooling to market Government-backed loans to private capital. The officers of AMVETS have reviewed the proposed legislation and find that its passage will bring absolutely no change in the management of the VA guaranteed or direct loans to veterans on homes and businesses. The VA will continue to be the administering agency, and the veteran, as always, will deal with the VA.

We also find that, under the proposed law, Congress will retain full control of appropriations, and in many areas congressional control will be strengthened. No veterans benefits funds can be diverted elsewhere.

The members of this organization fully recognize that fighting a godless enemy in Vietnam is costly, but necessary. Its cost is nothing compared to the human suffering if freedom is lost. This organization is on record strongly supporting the necessary expenditures for the Vietnam conflict and the President's policy of resisting the Communist conspiracy that has threatened to bury us. As veterans, we recognize that a primary responsibility of Government is security of our country.

We also stand firmly on the long-established principle that the veterans of this country are fully entitled to the benefits provided under present laws, and more. For without those who respond to the call to colors, there would be no freedom, no United States as we know it.

This organization is seeking liberalized expenditures in compensation for those who suffered wounds in wars, bigger pensions for those veterans who are in need, and greater aid to the widows and children of those who served. We further seek strengthening of veterans preference in Government jobs, another benefit granted veterans by the latest GI bill and previous veterans legislation.

Recognizing the need for adequately financing veterans benefits, including those rightfully extended to millions of veterans under the new GI bill passed by this Congress, and the need for financing other pro-

grams improving the general welfare, the AMVETS endorses the principles embodied in S. 3283.

The act obviously enhances and improves Government's method of financing, encouraging a greater partnership of private enterprise and Government. This improvement and this partnership is compatible with the goals of this organization, and we strongly urge its passage.

Sincerely,

RALPH E. HALL,
AMVETS National Commander.

Mr. BENNETT. Mr. President, I am the ranking minority member of this committee. Ordinarily, when a bill such as this is discussed, after a statement by the Senator in charge of the bill has been made, an opportunity is given for his opposite number to make a statement. I have enjoyed this colloquy this afternoon.

UNANIMOUS-CONSENT AGREEMENT

I ask unanimous consent that when the Senate meets on Thursday and the bill again becomes the pending business, I may have the privilege of the floor.

The PRESIDING OFFICER. Is there objection? The Chair hears none and it is so ordered.

Mr. THURMOND. Mr. President, the Participation Sales Act of 1966 now pending before the Senate, deserves much more study and consideration than it has so far received. If it were subjected to the degree of both public and congressional scrutiny which it warrants, I am confident it would be rejected. There is little likelihood that the bill, S. 3283, will receive anywhere near the amount of public attention that a proposal of its magnitude and far-reaching implications would seem to require, and, at this point, even less chance that it will be rejected. Nevertheless, I intend to do what I can to both bare its essential elements to further study and to persuade my colleagues of its faults and hopefully, therefore, to contribute to its rejection by the Senate.

S. 3283, would establish an almost entirely new pattern of Government financing for a wide range of governmental departments, agencies, and instrumentalities. The amount of money involved, at the present time, exceeds \$33 billion, and there is every indication that it will increase in future years. Beginning on page 18 of the Banking and Currency Committee report on the bill is a table showing the agencies involved and the amount of money held by each entity.

I ask unanimous consent to have this table printed in the RECORD.

The PRESIDING OFFICER (Mr. McGovern in the chair). Is there objection?

There being no objection, the list was ordered to be printed in the RECORD, as follows:

Outstanding direct loans, and guaranteed and insured loans for Federal credit programs classified by agency or program

[In millions of dollars]

Agency or program	1965 actual		Agency or program	1965 actual	
	Direct loans	Guaranteed and insured loans		Direct loans	Guaranteed and insured loans
A. MAJOR AGENCIES OR PROGRAMS			B. OTHER AGENCIES OR PROGRAMS—continued		
Office of Economic Opportunity.....	17		Department of Housing and Urban Development:		
Department of Agriculture:			Urban mass transportation loans.....	2	
Commodity Credit Corporation.....	2, 115	419	Liquidating programs (Community Facilities Administration).....	13	
Rural Electrification Administration.....	4, 072		Community disposal program.....	4	
Farmers Home Administration.....	1, 990	727	Department of the Interior:		
Department of Commerce:			Alaska public works (repayable investment).....	16	
Economic Development Administration.....	126		Bureau of Indian Affairs.....	24	
Maritime Administration.....	109	419	Defense Production Act loans.....	8	
Department of Defense: Military assistance credits.....	79		Fisheries loans.....	6	
Department of Health, Education, and Welfare:			Ship mortgage insurance.....		5
Office of Education.....	538		Guam rehabilitation program.....	2	
Public Health Service.....	13		Minerals exploration program.....	1	
Department of Housing and Urban Development:			Department of Labor: Manpower development and training loans.....	(1)	
Federal National Mortgage Association.....	2, 121	300	Department of State:		
Federal Housing Administration.....	527	49, 042	Repatriation loans.....	3	
Public housing program.....	60	5, 033	Loans to the United Nations.....	107	
College housing program.....	1, 027		Treasury Department:		
Urban renewal program.....	196	1, 382	Defense Production Act loans (liquidating).....	4	
Other major programs.....	432		Reconstruction Finance Corporation (liquidating).....	5	
Department of the Interior: Reclamation loans.....	90		Civil defense loans.....	(1)	
Department of State: Agency for International Development.....	8, 997	144	Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation fund.....	131	
Treasury Department:			General Services Administration:		
Loans to District of Columbia.....	139		Public Works Administration bonds (liquidating).....	58	
Foreign loans.....	3, 763		Surplus property sales credit.....	100	
Veterans' Administration.....	1, 649	30, 951	Interstate Commerce Commission: Guaranteed railroad loans.....		214
Export-Import Bank of Washington.....	2, 490	2, 617	National Capital Planning Commission: Advances to the District of Columbia and Maryland.....	(1)	
Small Business Administration.....	1, 147	104	Veterans' Administration:		
-Total, major agencies or programs.....	32, 507	91, 138	Service disabled veterans fund.....	4	
B. OTHER AGENCIES OR PROGRAMS			Vocational rehabilitation fund.....	(1)	
Department of Agriculture: Soil Conservation Service.....	15		Veterans special term insurance fund.....	5	
Department of Commerce: Aircraft loan guarantees.....		9	Veterans insurance and indemnities fund.....	1	
Department of Defense:			Veterans reopened insurance fund.....	(1)	
Loans for construction of Ryukyu power system.....	9		Total, other agencies or programs.....	547	276
Defense production loans and guarantees.....	14	49	All agencies.....	33, 054	91, 414
Department of Health, Education, and Welfare:					
Community facility loans.....	(1)				
Hospital construction activities.....	4				
Assistance to refugees in the United States.....	6				

1 Less than \$1,000,000 outstanding.

NOTE.—Figures may not add due to rounding.

Mr. THURMOND. Mr. President, a mere glance at this list discloses the comprehensive range of activities and agencies which this bill covers. Although this list is included in the combined views of Senator BENNETT, the ranking minority member of the committee, Senator HICKENLOOPER and myself, the list was not available to the Committee during the 2 days of hearings or during the executive session in which the bill was reported to the Senate. The only guide the committee members had available during the hearings and executive session as to the agencies which might be covered by the bill was an official, but similar, list included in the Banking and Currency Committee on S. 2499. These hearings were held last year on a bill to grant the Small Business Administration authority similar to that now proposed to be given numerous other Government agencies. That list was included in a letter, which was inserted in the hearing record, from the distinguished Senator from Texas [Mr. TOWER].

The lack of an official list of the agencies concerned until after the bill was approved in committee characterizes the consideration, or lack of it, to which this bill has so far been subjected.

The ostensible purpose of this proposal, according to its proponents, is to promote private financing of credit needs and to replace public credit with private funds. On closer examination, it is evi-

dent that this argument is without merit. This bill merely establishes a new method of Government borrowing, but the borrowing is done in such a way that it will not become a part of the formal debt, subject to the debt ceiling, nor will it be subject to disclosure as part of the administrative budget deficit.

S. 3283 would enable any one or all of the listed agencies to enter into a trust agreement with the Federal National Mortgage Association whereby the FNMA would issue and sell participation certificates based on pools of loans set aside by the agency for that purpose. Custody, control, collection, and servicing of the obligations would remain with the Government agency which had originally made the loan, but the beneficial title would be deemed to have passed to FNMA in trust. In short, none of the assets are actually transferred through sale to private rather than public ownership.

The assets are to be used as collateral for the issuance of other federally guaranteed obligations in the form of participation certificates which are to be sold in the private market. This is, in reality then, a borrowing transaction. In the event of a default on the original obligation, the agency will nevertheless be obligated on the participation certificate and will therefore stand to lose twice on essentially the same transaction. There is

a double obligation to repay the participation certificates as the underlying obligations will be guaranteed by the agency establishing the trust, and timely payments of principal and interest on the certificates will be guaranteed by FNMA. FNMA's guarantee, in turn, is supported by borrowing authority from the U.S. Treasury.

Although the participation certificates will not be full faith and credit obligations of the United States, as a practical matter, the moral obligation of the Government to back up the certificates is entirely clear. In the final analysis, then, it may well be that the Treasury will have to step in and bail out the agencies and FNMA.

With the foregoing facts in mind, it may occur to some to ask, "Why avoid Treasury borrowing in the first place?" The answer is fairly obvious to the discerning student of Government financing. The primary reason is, of course, to avoid making this significant sum a part of the budget deficit and avoid including it in the formal debt subject to the debt ceiling limitation. This is advantageous only from a standpoint of avoiding disclosure of the total Government debt. It does not avoid or prevent future debt; and in fact, as we shall see, in all probability, it will increase debt above that which would be created if the Treasury were to borrow the money initially.

There are several questions raised by this proposal which need to be answered. The first is, "Does this bill in truth represent a method of replacing public financing with private financing?"

The answer to this question is decidedly in the negative. The operating funds of the Government ultimately come, in all instances, from private sources. If the independent agencies involved borrow the money from the Treasury, the Treasury must in turn borrow the money from the general public or take them from funds already in the Treasury as a result of taxation. I can see no difference in that procedure from the one where proposed where the agency would borrow from the general public through an agreement with FNMA.

Question No. 2, "Will the procedure here proposed to be authorized result in a more efficient and orderly method of liquidating financial assets held by Federal agencies?"

Once again, the answer to this question is in the negative. It has already been shown that the assets held by the Government agencies will remain the property of the Government agencies for all purposes, such as serving the debt, and so forth. Any default on the obligations secured by these agreements must be borne by the agency and ultimately the Treasury of the United States.

Question No. 3, "Would the financing procedure proposed to be authorized by this bill result in terms more favorable to the Government than under normal procedures?" The answer to this question is not only in the negative in that the terms would not be more favorable to the Government, but all the testimony is conclusive on the point that the terms of the participation certificates will be decidedly less favorable to the Government than would a Treasury obligation. Administration witnesses who testified on this bill and congressional proponents are frank in their admission that the rates of interest required to make these participation certificates attractive to the public will be greater than would the rate of interest on a Treasury obligation. This is not theory; this is fact, and it is attested to by the experience of the Export-Import Bank. The Export-Import Bank has for some time had the authority to issue participation certificates. The General Accounting Office audited the issuance of two offers of participation certificates by the Export-Import Bank, and their reports reveal that the interest rate differentials amounted to more than \$7 million.

Question No. 4 is, "Would the enactment of this legislation be a brake on inflation?" In my judgment, the enactment of this legislation will not stop the inflationary trend which is so evident in our country today. Without doubt, unnecessary and extravagant Government expenditures and an ever-increasing Federal deficit is contributing substantially to inflation. This bill would not decrease Government expenditures nor would it decrease the level of the Government's debt. It would only avoid the normal public disclosure of the debt, but the debt would nevertheless still exist.

I fail to see how, under these circumstances, it can be seriously argued that this bill is an anti-inflationary measure.

Mr. President, one amendment to this bill which was originally added in the House of Representatives and has been included in the bill as reported by the Senate Committee on Banking and Currency deserves mentioning. It is the so-called Widnall amendment which requires prior approval by Congress in an appropriation act before any specific issue of participation certificates can be offered to the public. To this extent, congressional approval is required.

Mr. President, it seems to me that the administration is very anxious to push this bill through as fast as possible. I regret that the administration is trying to push through Congress important legislation in such a short period of time. I regret that the administration feels it has an obligation to run the Congress as well as the executive branch of Government.

In the House report, on page 35, Representative PAUL A. FINE had this statement to make:

I regret that we had only 1 day of hearings on this bill, which was incredibly reported out of committee the day after the Presidential message was received. This program is like Pandora's box—the Nation would not accept it if they knew what was in it. As usual, deception is the objective and public ignorance of what is going on is administration bliss.

This bill was reported by the Senate committee after only 2 days of hearing, one of which was held prior to the introduction of the bill in the Senate. Committee action was taken before it was known which, or even how many, Government departments, agencies, or instrumentalities would be covered by the all-encompassing language of the bill.

To my way of thinking, this is an unsound manner in which to legislate. The most logical, and certainly the surest, way to strike a blow for economic stability is to curtail unnecessary and extravagant expenditures by the Government.

S. 3283 embodies a proposal by which the Government would embark upon a new policy of financing the activities of its many and diversified credit agencies. I am convinced that this is an unsound proposal for the reasons I have stated. It is past time that we in Congress and the administration face the financial realities of the day, as bad as they may be, and stop trying to avoid unpleasant but necessary steps by reliance on gimmicks such as this. In the interest of both economic stability and truth in borrowing, the Senate should reject this bill.

TEXAS GULF SULPHUR PROFITS SOAR AT THE EXPENSE OF ECONOMY

Mr. PROXMIRE. Mr. President, the other day Texas Gulf Sulphur Co.—America's largest sulfur producer—reported huge first-quarter profits and sales gains. Corporate earnings soared 103 percent and sales increased 52 per-

cent. Total first-quarter revenues sharply advanced to \$29 million, up from \$19 million in the same period last year.

The company expects to pile up profits for the remainder of 1966. A top corporate official already predicted:

We expect to have a much better year than last year.

I might point out that Texas Gulf Sulphur's 1965 sales were 40 percent ahead of 1964. Its 1965 net income reached an alltime high—1965 profits were up 55 percent over 1964 and 90 percent over 1963.

So we have a flat increase on top of a big increase added to a huge increase. Higher profits are almost always good news in this country. Certainly it is welcome news for the executives of Texas Gulf. Their bonus checks and the value of their stock options will surely reflect the 103 percent increase in company profits.

But is it such good news for the economy and the American public? Lost amidst the report of rapidly rising profits is this crucial fact—and I quote from the New York Times of April 29, 1966:

Much of the increase in Texas Gulf's profit margins was apparently attributable to recent increases in sulfur prices.

Sulfur is a basic industrial chemical. Over the past 2 years, world demand for this vital material has been outstripping supply. This heavy demand has created pressures for higher sulfur prices. And this pressure, in turn, has led to price instability in the sulfur market.

Rather than follow the path of responsible price restraint as so many of its industrial counterparts across the Nation have done, Texas Gulf is instead pursuing a path of putting profits before the national interest. I find this especially disturbing in view of the high productivity advances in the sulfur industry.

Consider what this means.

Texas Gulf's price hikes translate into higher prices to industrial customers, many of whom are making ammunition for our men in Vietnam. Before long, these increases will be passed along to farmers, to homeowners, and to consumers. And so the value of the wage earner's hard-earned dollar becomes eaten away.

Texas Gulf should be lowering prices, not raising them or holding them at presently high levels.

Whether one subscribes to the President's wage-price guideposts, as I do, the sulphur pricing is unconscionable. It is transparently inflationary.

Something must be done. The first step, I believe, is up to the Congress. Texas Gulf Sulphur occupies a preferred tax position through its 23-percent depletion allowance. In view of the circumstances surrounding its large profits, the continuation of this special tax subsidy is open to serious question. I think the time is ripe for Congress to take a hard look at it.

U.S. POLICY TOWARD CHINA

Mr. KENNEDY of Massachusetts. Mr. President, I intend to address the Senate this afternoon on the subject of China.

DIGEST of Congressional Proceedings

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HIGHLIGHTS: Senate passed participation sales bill. House received conference report on 2nd supplemental appropriation bill.

SENATE

1. PARTICIPATION SALES. Passed, 39-22, with amendments the participation sales bill, S. 3283 (pp. 9445-76).

The committee report states:

"S. 3283 will permit the Federal National Mortgage Association, as trustee, to sell to investors participation certificates based on a pool or pools of notes or other obligations representing loans made or otherwise acquired by Federal credit agencies. Sales of participation certificates on behalf of any agency must be specifically approved in advance in an appropriation act.

"Funds obtained from the sale of such participation certificates would be available to the respective agencies to meet loan demands to the extent of their authorized lending limits and any amounts not currently so used would reduce their outstanding borrowings or advances from the U. S. Treasury."

2. WEATHER RESEARCH. Received from the Commerce Department a report on weather-research progress and plans. p. 9392
3. COMMITTEE CHAIRMAN. Sen. Randolph was elected Chairman of the Public Works Committee. p. 9397
4. FARM PRICES. Sen. McGovern announced that 35 Senators have become cosponsors of his resolution intended to "end efforts to freeze or roll back farm prices which are below parity" and commended the decisions to resume pork purchases and to increase the wheat allotment. p. 9400
5. FOREIGN TRADE. Sen. Javits spoke in favor of discretionary authority for the President to extend "most favored nation" benefits to East European Communist countries. pp. 9405-6
6. WHEAT ALLOTMENT. Sen. Carlson announced and commended the President's decision to increase the wheat allotment. p. 9410
7. SCHOOL-MILK APPROPRIATIONS. Sen. Proxmire commended the testimony of the National Farmers Union on school-milk appropriations. pp. 9414-5
8. DRUG COORDINATION. The Government Operations Committee submitted a report, "Interagency Drug Coordination" (p. 9396). Sen. Ribicoff discussed the report including comments regarding food additives. pp. 9426-8
9. POVERTY. Sen. Yarborough said Federal antipoverty programs are bypassing Mexican-Americans in the Southwest. pp. 9428-31
10. FOOD FOR INDIA. Sen. Mondale inserted articles on food needs in India. pp. 9437-8
11. FARM LABOR. Sen. Holland inserted a Farm Bureau recommendation for importation of farm laborers and deplored Secretary Wirtz' position on the matter. pp. 9444-5
12. INFLATION. Sen. Javits charged the administration with "drift and delay" on inflation. pp. 9478-81
13. LEGISLATIVE PROGRAM. Sen. Mansfield said defense and atomic-energy bills will be considered next week and that he hopes the Interior and Treasury-Post Office appropriation bills will also be ready. p. 9475
14. ADJOURNED until Mon., May 9. p. 9481

HOUSE

15. APPROPRIATIONS. Received the conference report on H. R. 14012, the supplemental appropriation bill (H. Rept. 1476). The Senate item of \$30,000,000 for the emergency credit revolving fund was reported in technical disagreement, but the House conferees said they will offer a motion to concur in the item.

By way of comment, I wish to say that I think every thinking person in this Nation knows that there is substance to the statement of President Shuman, except one, and that is Secretary of Labor, Mr. Willard Wirtz.

I regret very much that he continues his adamant point of view under which he is withholding normal and adequate supplies of labor—unemployed labor from Canada, Mexico, and the British West Indies—which is required by fruit and vegetable people to produce and harvest their crops.

I remind him that there has been no more acceptable form of mutual foreign aid in the past, and there is no more acceptable form available now, than to allow the people who are unemployed in these friendly nations adjoining us—some of which are just across the border from our Nation in Canada and Mexico, and some removed by a few miles of water, as in the case of the British West Indies—to come in to help, to make sure that our farmers can have an adequate supply of labor to produce and harvest their highly perishable crops.

The remarks of Mr. Shuman, speaking as he does for an organization with over 1¼ million farm families as members, are worthy of notice. They should command the respect and attention of the entire Nation.

So far as I am concerned, I hope that they will finally get the attention of the Secretary of Labor, who for so long has been taking such an intolerable position over that which should be his position if he expects to bolster production of needed crops and food produced by growers of fruit and vegetables in this Nation.

PARTICIPATION SALES ACT OF 1966

The Senate resumed the consideration of the bill (S. 3283) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

Mr. BENNETT. Mr. President, the Senate is considering the proposal of the Treasury Department, S. 3283, to give the Government the right to sell participation certificates backed by the loans held by a number of Federal agencies and to use them as collateral.

The bill is rather complicated, and the Senator from Utah has found it difficult to understand the implications of some of its ramifications. He is not sure now that he really understands them. I feel that it is unfortunate that the Senate has been trying to act hastily with respect to the proposed legislation. I am sure that even the 48-hour delay since this matter was discussed last Tuesday has provided an opportunity to improve the bill and to eliminate some of the problems that have been recognized by both sides.

In my discussion today, I shall attempt to explain to the Senate my understanding of what the bill does and what it means. I shall present my discussion from two points of view: I shall discuss how I believe the law would operate if

the bill were passed. Then I shall talk about some of the possible consequences of that operation and, from my point of view, some of the pitfalls of which we must be aware.

We start with the realization that the Federal Government has been engaged for many years in the business of making direct loans to individuals, corporations, municipal bodies, and agencies of various kinds. Based on the table that was included in the RECORD on Tuesday, 51 agencies are now making these loans, and, at the latest date of inventory, these agencies hold approximately \$33 billion worth of loans. The interest rates on those loans vary from 2 percent on the REA loans, which is less than half the cost to the Government today to borrow money, to more than 5½ percent, which is approximately equal to the present market price.

These problems are continuing. In other words, the agencies are still making loans. The \$33-billion figure may have been true for one particular day, but it is undoubtedly higher today, and it will become higher in the future.

In the meantime, Congress is looking at other problems which conceivably might increase the variety and number of these loans.

In his testimony before the Committee on Banking and Currency, under questioning, Under Secretary of the Treasury Barr estimated that by the end of fiscal year 1967—which means by July 1968—the volume of these loans outstanding could exceed \$39 billion, an increase of roughly \$6 billion above the present total.

This situation results in a drain on the Treasury and on the budget. In order to offset the drain, the administration proposes to use these loans as collateral—not to sell the loans, as has been done in the past, but to use them as collateral—and to issue against them what might be called mortgages. These obligations would be in the form of participation certificates, which would mature in 6 to 10 years, with an estimated average of 7 years.

In one sense, I should not use the word "mortgage," because any person who bought a participation certificate would not buy the right to come to the Treasury and foreclose on the security. Actually, he would buy a right to an income, which would be determined in a way I shall discuss shortly. He also would buy the right to an effective, complete guarantee by the Federal Government that his principal would be paid when it was due.

In this way it is better than a private mortgage, but in essence it has the same characteristics because the Treasury is going to tie up this collateral, these loans, and hold them as security for the payment of the certificates it issues against the collateral. As I understand it, the way this is proposed to operate is that these agencies would be given the power to turn over to the Federal National Mortgage Association a block of these loans and the FNMA would be given the power to accept them in trust.

The bill provides that the title would be deemed to have passed to FNMA. I

believe the title should actually pass and not merely be deemed to have passed. I believe an amendment to that effect will be offered and accepted. This is one of the improvements that we have made in the bill over the last 48 hours.

FNMA, which was originally set up to be a secondary loan for home mortgages guaranteed by FHA, would now become a kind of investment agency which would take assets and loans from other Federal agencies as though they were its own, gather them into groups, and then issue new indebtedness against them.

The loans would remain the property and the responsibility of the Federal Government, and a new kind of paper would come into being.

One of the things that has concerned me, and on which I am not sure that I have a clear answer, is whether FNMA could accumulate these loans from a number of agencies, join them in the same pool, and issue certificates against a variety of loans. I am not sure whether it is proposed to take loans from separate agencies and make separate pools out of them. I do not know that that is vital, but I hope we can clear the matter up before we finish our work on the bill.

I ask the Senator from Maine whether, as a matter of policy, the practice is to be adopted that the Treasury propose to mix loans from various agencies and put them in the same bundle, or does the Treasury propose to build homogeneous pools with loans from a single agency?

Mr. MUSKIE. I believe the accurate way to answer that question is that the Treasury would not like to foreclose mixed pools. By leaving the door open to this possibility, they might be able to make the issues of participation certificates more attractive to the market.

Mr. BENNETT. It is an open question.

Mr. MUSKIE. It is an open question, and it is desired to keep it as a possibility.

Mr. BENNETT. If each pool, regardless of how it is set up, were to become security for a participation certificate or for a number of certificates, and if the man who bought the certificate had no right to go back on the collateral, then obviously the Federal Government would have the responsibility. The bill recognizes that and the administration accepts it.

If any single loan in the pool were to become bad, it must be replaced by a good loan. I can foresee that this replacement process will become almost continuous, if not for that reason, then for the reason that there will be different maturities on the debt obligations in the pool. Constant management would be required, and it is proposed that that management be with the originator of the direct loan placed in the pool.

The government agency would hold the original notes. It would service them. It would have the obligation to collect the interest and principal on those notes. If some note were to become bad or mature, the Government agency would have the obligation of replacing that note in the pool with a note of equal value. If collection were to become a problem,

if the debtor had a problem in paying his interest or principal when due, it would be the Federal Government agency that he would have to deal with, and not with the holder of the participation certificate.

Having created the participation certificates, the Federal Government proposes to go out in the money market and sell them. It is my understanding that they expect to sell them through a professional private underwriter just as private bond issues and private equity stock issues are sold. Whether it will be a single company or individual or a syndicate remains to be seen. It will probably be a syndicate.

That would mean that somebody must buy the participation certificates. There would be bidding or at least negotiation on the price. The participation certificates would undoubtedly bear a fixed rate of interest. However, their effective yield would vary as the money market varied.

These participation certificates would be negotiable. They would be bought and sold in the money market by investors, and the effective rates would vary as the market rate varied.

The certificates would be negotiable and would not be redeemable by the Federal Government until maturity.

It is my understanding that, in effect, as soon as the certificates are sold, the Federal Government would not be interested in who bought them. In many respects these would become replacements for the long-term standard Government bonds that have become so difficult to sell.

It is true that the phrase "full faith and credit of the United States" is not used in these investment participation certificates. But anyone who realizes that the Federal Government effectively guarantees that the interest and principal will be repaid and guarantees that the collateral can be kept effective by agreeing to replace any bad collateral can realize that these have a guarantee equally as valid as if the full faith and credit of the United States were pledged. The only real difference is a tax difference.

By this device the administration would get an opportunity to go into the long-term money market for money, which privilege is now denied, with respect to its normal long-term bonds because we have a 4¼-percent interest ceiling on long-term bonds, and the interest level on long-term securities in the market today is so much higher than that ceiling that the Government cannot sell its bonds.

This leads us into the problem which we faced in Congress for a number of years. Some of us feel, and I am one, that the 4¼-percent ceiling is archaic, that it is a nuisance, that it is an unnecessary barrier. It is felt that if it is possible to get around the ceiling by this kind of device there is no reason why we should not step up like men, take off the ceiling, and let the Government sell its bonds directly on the market without going through this long, round-about way.

I know why we do not do that. It is because the administration wants to

preserve the image that it believes in low interest rates. If the Government supported the idea of raising the ceiling on long-term bond interest, this action would be considered by many of its supporters as being a retreat from a principle.

So now we retreat from the principle through the back door instead of through the front door.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. BENNETT. I am happy to yield to the Senator from Delaware, for a question.

Mr. WILLIAMS of Delaware. Is not this refusal of the administration to remove the archaic 4¼-percent ceiling in reality resulting in monetizing our national debt in that they are being sold as short-term securities?

Mr. BENNETT. It has two effects. I wish to be fair: This is a problem with which every administration wrestles. The calendar tends to run pretty fast when you owe money. When you issue a 10-year bond, 2 years later it is only an 8-year bond; or when you issued a 6-month note, 3 months later it is only a 3-month note. So the problem of maintaining the average term of the debt is a difficult problem. The Senator is correct. There are three things that could be done. I have mentioned only two. We can raise the interest ceiling, or we can do what is being proposed now; or the Federal Government can sell its bonds at a discount, which is an admission of weakness. This administration has done that, in order to get around the 4.25-percent ceiling.

Mr. WILLIAMS of Delaware. Another way they get around it is through the sale of Government bonds with less than 5-year maturity.

Mr. BENNETT. That is correct.

Mr. WILLIAMS of Delaware. So they are selling those at 5 percent when in reality they could have sold, on the same day, a 20-year bond for 4.50 to 4.75 percent. They are not only monetizing the debt but also paying a higher interest rate to do it and to preserve an image of being for low interest rates.

Mr. BENNETT. That is the feeling of the Senator from Utah. I think this 4¼-percent interest ceiling has become a kind of symbol, a kind of shibboleth. That was fine 30 years ago, when the Government was paying 2 percent for money, or 20 years ago, during World War II, when it was monetizing the entire cost of the war and paying one-half or one-fourth of 1 percent for money. But it does not seem to be realistic at the present time.

I should like now to turn to the question of how much money we are talking about. In the committee, we were told that there are approximately \$33 billion worth of loans that would be subject to this bill. Between now and the end of fiscal 1967, \$6 billion more of such loans would probably be made, making a total of loans outstanding, then, of approximately \$39 billion.

But if this bill is passed, they expect to sell between now and the end of fiscal 1967 approximately \$8 billion worth of these participation certificates, so that

they will reduce the net investment in such loans to \$31.5 billion.

But, actually, they will still hold \$39 billion worth of loans, and be responsible for them.

There is a difference between these loans and the bonds. The things I am about to say represent the heart of my objection to the bill. These participation certificates represent long-term borrowing which is not under the official debt ceiling. So this is a device by which the Government can get money to finance its deficit without putting any pressure on the debt ceiling.

I have already indicated that these certificates are not bound by the interest ceiling, as are long-term bonds. So they get around that roadblock; and because they will not show up plainly in the figures quoted to show the condition of the operating budget, whether it is a deficit or a surplus, that figure which can be presented to the American people as a measure of the deficit will be distorted by the amount of the value of participation certificates sold in any one fiscal year.

Next year, the administration says, it intends to sell \$4.7 billion worth of these participation certificates. In his budget message, the President took that into consideration—assuming this bill would be passed—and said he expects to have a deficit of only \$1.8 billion. Of course, the situation in Vietnam has already destroyed that hope, but I wish to eliminate that from consideration for the moment.

If the President's figures had been accurately estimated, and if we had gone through in terms of deficits without participation certificate sales, his deficit would not have been \$1.8 billion; it would have been \$6.5 billion. I am not accusing the President of deliberately attempting to deceive the American people, but I am concerned that before this system goes into operation, some method should be set up to tell the American people how many of these participation certificates were sold, and what their effect was on the announced deficit. The use of this device will prevent direct and factual comparisons between the deficit in the years in which the device is used and in other years in which it was not used, by tending to understate the latter.

Much was made, on Tuesday, of the fact that the proposal will increase the cost of financing the Federal debt. I shall not labor that point again. There is general agreement that it will increase the cost; there is disagreement as to how much. The Budget Bureau says from 25 basis points to 35 basis points, which means from about one-quarter to one-third of 1 percent. The figures show that sale of participations recently represented an increase of more than six-tenths of 1 percent. But nobody will disagree that the costs will be increased.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield at that point?

Mr. BENNETT. I yield.

Mr. WILLIAMS of Delaware. As to the cost, I found it interesting to review the debate that took place when this same issue was before Congress in 1959.

At that time the man who was then serving as majority leader of the Senate—the same man who is now in the White House—emphasized that the cost would exceed six-tenths of 1 percent if this procedure were utilized to liquidate the assets. So I am quoting the best authority in the country; the man who is now the President of the United States.

Mr. BENNETT. Well, the figures, so far, bore him out. I would be willing to give him the benefit of the doubt and say that we must look to the future for the actual answer, but so far as the previous experience and present experience is concerned, it is approximately six-tenths of 1 percent.

(At this point, Mr. KENNEDY of New York took the chair as Presiding Officer.)

Mr. BENNETT. Mr. President, I stated at the beginning that I was disturbed over the speed with which the bill was being handled, because there is one item on which I have not been able to get information—and this is a typical problem: An agency now owning Federal loans, say the Small Business Administration, turns over some of its loans to FNMA, and FNMA issues participation certificates against them, sells them, and gets the money.

Presumably, it turns the money over to the agency whose loans it mortgaged. What effect will this have on the capacity of that agency to turn around and reloan the money? How much of the money with respect to each agency would, in effect, have to go into the Treasury for uses other than loan purposes?

The only answer I can get is that the rules are different for each agency. The problem is so complicated and it would take so long to get an answer that we cannot supply it in time for this discussion.

This is an important problem and I hope before too long that we will get that answer set forth clearly.

Are we expanding the lending capacity of the agency; and if so, how?

Or, are we setting up funds which will go back into the Treasury and be made available for other spending purposes?

Mr. DOMINICK. Mr. President, will the Senator from Utah yield?

Mr. BENNETT. I am happy to yield to the Senator from Colorado.

Mr. DOMINICK. I am asking the question for my information. On reading the report, I gathered that if the participation loans were approved by the Appropriations Committee, the money that would be received, agency by agency, could be used to expand lending power, or be sent back to the Treasury, so that each agency would have its own discretion. Is that not correct?

Mr. BENNETT. Yes; that is correct. The money that would come in from the sale of participation certificates would have the same value as appropriated funds to each agency. But, the condition under which the agencies can use their appropriated funds—the limitations—are quite different. As I say, the administration just said, "We cannot answer your question in the length of time you have before your meeting."

Mr. DOMINICK. Just taking two agencies for the purpose of clarifying my own thinking, is it my understanding that this would increase the scope of the administrators of foreign aid to make loans around the world without Senate approval?

Mr. BENNETT. The foreign aid loans are included in the authority granted by the bill, but administratively they will not be included in the program, as I understand it.

Mr. DOMINICK. Fine. What about REA?

Mr. BENNETT. REA loans are included also—that is to say, REA is one of the 51 agencies included in the bill; but the administration has made it clear that if they sell participations they will not include any REA loans. That is also a matter of policy.

Mr. DOMINICK. That policy could be changed.

Mr. BENNETT. Yes; that policy could be changed.

Mr. DOMINICK. In other words, there is nothing in the bill itself which would prevent the REA or any other agency from doing this if they are included within the 51 agency group. Is that correct?

Mr. BENNETT. As the bill now stands, that is correct. I also have the understanding that an amendment will be accepted which will clear that up.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator from Utah yield?

Mr. BENNETT. I yield.

Mr. WILLIAMS of Delaware. I believe it is correct to say that as the bill was reported by the committee it did give them authority to sell REA bonds.

In our colloquy the other day I cited a specific example of the \$3¾ billion loan we had for the British Government in 1945—2-percent bonds of which approximately \$3 billion is still due. Under this bill we could discount those bonds or sell them, although I understand that since that was pointed out the day before yesterday they would now be willing to accept amendments to strike it out. Nevertheless, the bill, as it was sent down by the administration and ramrodded through the committee and onto the floor of the Senate, it did give them such authority to sell these bonds, and apparently it was their intention to do so if we had not caught it in time.

Mr. DOMINICK. I thank the Senator from Delaware. This helps my thinking a great deal.

Mr. BENNETT. In the bill as it came from the committee, this permission was available because the agencies are among the 51 to which I have referred, but, as I say, it is my understanding that the administration will accept an amendment to the bill to straighten out that problem.

I should like to talk briefly about the effect of this proposal on private borrowers and private lenders. I have already commented on the Government as lender and borrower, but I want to expand on that, too.

Let us look at the situation of the private borrower. More and more of our

fellow citizens and our instrumentalities, both official and semiofficial, are discovering that the Government has a loan program usually at subsidized interest rates which will enable them to do what they want to do without paying the market price for that money, or without facing the judgment of a lender who has got to lend money on risk and has got to make sure that his judgment is right.

Thus, on this basis, I believe that passage of the pending bill would encourage more and more people to come to the Federal Government to borrow money. It will encourage the Government to expand its loan programs, because the administrators of those programs can say, when they come to Congress for increased authorizations, "Well, sure, it does not matter how big our loan program gets. We can always sell participations against it and the net investment of the Government will not be increased."

Let us look at the lenders to the extent that these loans will be the borrowing by small businesses, individuals, small local borrowers. The local banks will begin to lose more and more of their customers when these customers go to the Federal Government for their money. The local bank will lose control and interest in the loans that are made. Instead of being in the banking business, they will begin to move more and more into the investment business, because they will be investing in a piece of paper with a guaranteed rate of interest and a guaranteed return.

This could weaken the service of our American banking system to its communities and make them more and more a passive money manager than an active lender.

I know that there are many kinds of bankers. There are bankers who have always been passive, but, fortunately, in many communities in this country there have been active bankers who have taken the leadership in developing local enterprises, local projects and programs to help the community.

To me, this situation is a very real threat to the banking industry. Government rules could replace private judgment. This could make it so that there would be no opportunity for a man to say, as a banker said to me once, "Well, it may be a poor risk, but it is a darn good loan and will be good for our community."

I have to raise this ugly specter, but we are opening the door more and more to political decisions as to who will get the loans and who will not, because it is obvious from the present situation that there are more people who want loans than there is money to supply them, and somebody has to set up the priorities. Since the Government is essentially political, I think it does not take too much imagination to discover that under certain circumstances the priorities will be decided on some basis other than the value of the loan to the community.

Much was said the other day about the program that was instituted in the Eisenhower administration, and I am not going to open up that can of worms

again, unless somebody makes me, but I would like to point out this difference. There have been previous programs whose purpose it was to get money invested in loans back into use by the Federal Government. In those cases the loans themselves were sold. The man who bought the loan had to manage it, became familiar with it, serviced it, and it was just as if he had gone out and established a new loan.

The securities still had Government guarantees, so the risk was minimized to that extent, but he had to get it, to service the loan, and make the collection. Actual sales of loans were involved. The volume of total loans in the Federal Government's hands went down.

Under this proposal, of course, the volume of loans in the Government's hands will remain the same or rise. There is an offsetting piece of paper against it. So the net investment will go down, but not the total in the hands of the Government.

Mr. MUSKIE. Mr. President, will the Senator yield?

Mr. BENNETT. I yield.

Mr. MUSKIE. I do not have the figure on the proportion of the direct loan sales that are with recourse to the Government and those which are made under some kind of Government guarantee or insurance but I think the bulk of the direct loan sales do carry a continuing obligation for the Government. So to that extent the total obligations to the Government are not reduced. The direct loan paper is reduced to the extent that direct loan sales take place. I only wanted to point out that those participation sales involve a guarantee, and in that sense are a continuing liability. So I think the analogy ought to go to direct sales with recourse to the Government.

The record of the hearings, at page 97, contains a table showing the Export-Import Bank sales from fiscal year 1961 to fiscal year 1965. The total amount from 1961 to 1965 without recourse amounted to \$284 million. The remainder amounting to about \$1.5 billion were with recourse. Whether or not this reflects a pattern as to other agencies, I do not know.

Mr. BENNETT. I am glad the Senator brought that fact to our attention, because we want to get the RECORD clear.

Mr. DIRKSEN. Mr. President, is the Senator from Utah at liberty to yield for a few questions at this time?

Mr. BENNETT. I happy to yield.

Mr. DIRKSEN. We do have today a very accepted way of investment that is referred to as mutual funds, which funds take in amounts of money and buy selected stocks and issue certificates against those stocks.

Mr. BENNETT. That is correct.

Mr. DIRKSEN. Is that about comparable with this situation, where assets of other agencies in the form of direct loans are put in a common pool and these participation certificates are issued?

Mr. BENNETT. Yes, in respect to which you refer.

Mr. DIRKSEN. Now my question: Is it correct to say that the buyer of a participation certificate does not get a title

to any specific loan or any specific security?

Mr. BENNETT. The Senator is correct. One does not get any title to a specific loan. In that respect it is like the mutual fund concept.

Mr. DIRKSEN. I saw a little statement in the report about the interest rate. I do not know that it was nailed down. The point has been made that it would cost more this way than by direct Treasury financing. Does the Senator have a comment on that?

Mr. BENNETT. I believe it is agreed by all that it will cost more. The extent of the difference will depend on market conditions. We argued much about that on Tuesday. The Treasury is prepared to admit it will cost somewhere from one-quarter to one-third of 1 percent. I think the recent record shows it may well reach one-half of 1 percent.

Mr. DIRKSEN. So it is conceivable that it will cost more than by direct Treasury borrowing?

Mr. BENNETT. There is no question about that.

Mr. DIRKSEN. On pages 18 and 19 of the report there is listed a group of agencies or programs showing direct loans and also guaranteed and insured loans. Of this number, is it correct to say that only the direct loans are the ones that would go into the pool?

Mr. BENNETT. I think I know the list the Senator is looking at. It was assumed, when that list was published, that any loan outstanding which was in the possession of any of these agencies could theoretically be subject to the terms of this bill and become part of the pool.

To be fair to my friends on the other side, I should say they are willing to accept an amendment which will restrict the agencies which may participate in the pool.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. BENNETT. I yield.

Mr. WILLIAMS of Delaware. That restriction, however, was not proposed until after some of us objected a couple of days ago and it was emphasized that even the British loans made in 1945 amounting to \$3¾ billion, could, under this bill be discounted in the New York banks. I understand the administration agreed to accept an amendment to eliminate this. What else is in it I do not know, but the Commodity Credit Corporation is included in this bill. The Commodity Credit Corporation is already bankrupt. Of course, with a Government guarantee even a worthless note can be sold.

Mr. MUSKIE. Mr. President, will the Senator yield at this point in the colloquy?

Mr. BENNETT. I am happy to yield.

Mr. MUSKIE. I think both the Senator from Delaware and the Senator from Utah are correct in saying that as the bill came out of the committee, and as it was presented, it covered obligations of around \$33 billion, subject, however, to this control: That these participations would have to be approved by specific authorization acts, which would go to the specific appropriations committees.

I made it clear on Tuesday that there was no intention on the part of the administration to include foreign aid loans or British loans or some other loans, including the REA loans.

Coupled with that other control in the bill, that the appropriations committees must pass on it, I think the restrictions were much more significant than has been suggested up to this point in the colloquy.

However, in order to clarify any doubts and to conform with the actual program the administration had in mind, the amendment to which the Senator from Utah has adverted will be offered, and I think that will cover programs that include a direct loan portfolio of \$10,-971 million.

Mr. WILLIAMS of Delaware. Mr. President, I would like to have an explanation of these amendments first, I have no objection to the Senator finishing his remarks, but this bill was rushed onto the floor without proper consideration. It was in the committee for only 2 days. We are dealing with authority involving \$33 billion. I would like an explanation of these amendments before I enter into any agreement.

I hope the Senator from Utah will finish his remarks so that we can get an explanation of the amendments.

Personally, I think it would be wise if we learned what else is in this bill. If the committee now recognizes that there is about \$20 billion in it that they are willing to take out, which is about two-thirds of the original bill, how much more is in there that neither the committee nor I know about?

Would it not be wise to take this measure back to the committee, have it studied further and then bring it back to the floor, at which time we can proceed with a more orderly discussion of the bill?

I am not trying to cause any undue delay, and to show that I am not trying to preclude a vote, I am willing to agree now that when it comes back we enter into a unanimous-consent agreement limiting debate.

However, I think that the Senate should have a chance to study the measure in amended form. We are not dealing with millions of dollars but billions.

As I understand it, the administration now agrees to change this measure from \$33 billion to \$10 billion. That is a wonderful step in the right direction, but how do we know that there is only \$10 billion, \$5 billion, or \$20 million left?

It would be far better if the bill were to go back to the committee. The committee could report the measure next week. We are told that the administration is not planning to utilize this authority for another 12 months. One week would not make much difference. I would be willing to have it reported back on a day certain next week with the unanimous consent to consider it that day.

Again I emphasize that I am not trying to preclude the right to vote on the bill, but the Senate should know for what it is voting.

Mr. BENNETT. Mr. President, I was in colloquy with the Senator from Illinois. I did not intend to interrupt him.

Mr. DIRKSEN. There is included for State Department, Agency for International Development \$8,997 million. That includes the loans that have been made over a period of time directly to underdeveloped countries, in large part.

As I recall, some of those loans were made with a grace period of 10 years on payment of interest of a quarter of 1 percent, and then on a 40-year basis, as in the case of loans made to Ghana to build a powerplant and dam on one of the major rivers there.

Just imagine buying a participation certificate involving loans for a 40-year period with a long grace period, and virtually no interest, on what, for practical purposes, I call concealed grants.

What does the administration propose to do about some kind of prospectus, so that a purchaser may have a little brochure to tell him what kind of paper is in this pool and the terms and conditions of the paper?

If, perchance, one is interested in buying through a mutual fund, he is given a list showing that it holds so many shares of Aluminum Company of America, so many shares of Standard Oil, and so many shares of this and that. Complete information is given on what is in the portfolio, so the investor will know.

What does the administration propose to tell the people? What does it propose to tell the prospective investor as to what these loans will buy?

Mr. BENNETT. As far as the Senator from Utah knows, no definite, official statement has been made by the administration on that point, but unofficially, I have been given to understand that it is the intention of the Government to enter into a contract with a typical private investment banking firm, skilled in the selling and underwriting of securities, of which this would be a typical one. I assume that if they make such a contract, when the private agency goes into the market to sell the security, it will be brought under Securities and Exchange Commission regulations, and it will be required to furnish the prospectus to which the Senator has referred.

But there is nothing in the bill that requires it.

Mr. DIRKSEN. That is an assumption.

Mr. BENNETT. That is an assumption.

Mr. DIRKSEN. And the salespeople of the underwriter will say that the Government of the United States is behind these participation certificates. That begins to assuage the apprehensions of people. They say, "Oh, well, if the Federal Government is behind this, I have no concern about it."

I believe that in the interest of candor there has to be something in the bill to require the administration to tell what they are selling. People may think they are buying something, and it will be a pig in a poke, unless one is willing to accept the word that the Federal Government is behind it.

We had this problem once before. The Senator from Utah may remember the days of the joint land banks.

Mr. BENNETT. I was not in Congress in those days.

Mr. DIRKSEN. I was. I remember those days. That paper went down to nothing. That was a pretty sorry business for the investors who held those bonds. There came a hue and cry because of certain language in the law as to whether or not they were or were not absolutely guaranteed by the Federal Government. Then, they discovered they could not collect and the bonds went down, and down, and down. These investors in good faith were left to hold the paper and take the loss.

Mr. WILLIAMS of Delaware. The agency will service it. All they will have will be a Government bond, which is guaranteed by the pledge of FNMA, that if there is a default they will make the payment, backed up by borrowing from the Treasury.

My question is: In what denominations are these bonds going to be sold? They will bring $5\frac{1}{4}$ percent to $5\frac{1}{2}$ percent. Will the average American citizen be able to buy this 5.35-interest-rate Government bond, or will they as some have suggested, be issued in denominations not lower than \$50,000 denominations, which would preclude the American public from it?

We are selling series E bonds at 4.15 percent interest. If they are to pay $5\frac{1}{4}$ percent to $5\frac{1}{2}$ percent why not let the little fellow buy it and get this extra 1 percent?

We should not exclude the American people. I think that the law should be explicit as to exactly what is intended.

Mr. BENNETT. This bill gives FNMA, the trustee for these pools, unlimited power to secure funds by borrowing from the Federal Treasury to make good any loss or any potential loss. This is also checked in advance by the Appropriations Committees. They cannot issue any participation certificates until the Appropriations Committees have authorized it.

This particular feature of the bill was written in on the House side at the request of the minority—this right of the Appropriations Committees to ride herd over the issuance of these certificates.

Mr. DIRKSEN. That right they should have. But the point is, at the time when the appeal is made to the public to buy these participation certificates, how much information will they have as to precisely what they are going to buy? An investor might say, "Not on your life. I do not get so much as a security to show for the money I am going to invest. The Government keeps the assets. All I get is a participating certificate."

Mr. BENNETT. Just a piece of paper.

Mr. DIRKSEN. And the agency that made the loan in the first place is going to service the loan and collect the money.

Mr. BENNETT. FNMA would service the loan.

Mr. DIRKSEN. That is not my understanding.

Mr. BENNETT. The Senator is correct, I was thinking of something else.

Mr. WILLIAMS of Delaware. My question is: Are the bonds to be limited

to \$50,000 minimum denominations, or will they be reduced to \$1,000 denominations so that the average Joe Doakes can buy them and get aboard this gravy-train?

Mr. BENNETT. The Senator from Utah does not have that information. I asked an official of the Treasury the specific question about the \$50,000 figure and was told that there would be bonds of much smaller denomination than that. But when I asked him how small, I was told that the decision has not been made.

Mr. WILLIAMS of Delaware. That is what I was told. I think it is a decision that should be made before we vote.

After all, if the Government, in its great benevolence, is going to pay an extra 1 percent or six-tenths of 1 percent in interest rates more than is necessary on a Government-guaranteed bond and if the average investor knows that there is no difference between a direct Government bond and a Government-guaranteed bond, why not let Joe Doakes, the man in the street, receive the benefit of the extra one-half percent? Why confine the privilege to one bank in New York?

Mr. MUSKIE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield. The PRESIDING OFFICER. Does the Senator from Utah yield?

Mr. BENNETT. May I maintain my right to the floor and yield to the Senator from Maine, so that he may question the Senator from Delaware?

Mr. WILLIAMS of Delaware. Very well. I hope that the Senator from Maine can answer the question.

Mr. MUSKIE. I shall be happy to answer it.

Since the Senator appears to prefer the sale of loan paper directly, there is nothing in the proposed legislation which would prohibit the continuation of direct sales of loans and they are available in the denominations that are on the books. Those denominations cannot be reduced. They are on the books and in the portfolio. If they happen to be in small denominations, the small investor is free now to purchase them.

The history of direct sales of loans is that the interest is even higher than it is on the participation-certificate sales. So the Senator's hypothetical investor could make more money by buying the obligations that are now available in the Government's portfolio of direct loans, and at better interest rates.

Mr. WILLIAMS of Delaware. The Senator from Maine says that they will be sold based on what is on the books. My question is: What is on the books?

Mr. MUSKIE. They are already there. If the proposed legislation is not passed, they are there. I am talking about the direct loan paper that is in the portfolio now.

Mr. WILLIAMS of Delaware. I am speaking of the participation certificates in this particular bill. Will they be sold in denominations as low as \$1,000, or will they be limited to \$50,000? The Senator from Utah indicated he could

not find out. In what denominations will they be sold?

Mr. MUSKIE. The Senator already has his answer to that question from the Senator from Utah. My interjection was for the purpose of suggesting to the Senator from Delaware that the investor about whom he is concerned in his question would have the opportunity to get this loan paper at higher interest rates than would be available in the participation sales program, and in denominations to suit his purse, if they are available in the present portfolio. So the investment opportunity that the Senator is seeking is now available.

With respect to the program covered by the bill—

Mr. WILLIAMS of Delaware. Mr. President—

Mr. MUSKIE. May I finish?

Mr. WILLIAMS of Delaware. Perhaps my point is not clear.

Mr. MUSKIE. The point is clear.

Mr. WILLIAMS of Delaware. FNMA sold some participation certificates about 3 months ago. How low were the denominations of those certificates?

Mr. MUSKIE. I could not answer that question.

Mr. WILLIAMS of Delaware. Then we are back where we started.

Mr. MUSKIE. If for the next 6 months the committee held the hearings that the Senator is proposing, I could not conceivably memorize the details that the Senator is seeking with respect to the sales of all the certificates. I do not have that answer.

I am saying to the Senator that in the direct loan portfolio now—and I cannot tell him what is in it—there are \$33 billion worth of certificates. In the direct portfolio now, I am sure that a variety of denominations is available to investors who wish to make that kind of investment.

The Senator has raised a question. My only effort was to try to suggest that here is an investment opportunity comparable with the one which is available to the Senator's hypothetical investor. That is my only point.

Mr. WILLIAMS of Delaware. The American Telephone & Telegraph Co. recently sold a sizable bond issue, and in the advertising appearing in the Wall Street Journal it was stated that these bonds would be in denominations as low as \$1,000. In almost any bond issue of any major corporation the Securities and Exchange Commission requires that the corporation indicate the lowest denomination at which the bonds can be bought.

My question is this: Under this bill it is proposed to sell as much as \$33 billion worth of bonds. In what denominations are they to be sold? Will they be in \$1,000 or \$50,000 denominations, or only in \$1 million quantities? Certainly this is a proper question. It is a question that any corporation in America would have to answer before it could float a bond issue in the manner that is proposed by the bill. It is a question that is answered by the U.S. Government in all its direct sales of bonds.

I thank the Senator from Utah for yielding.

Mr. BENNETT. Mr. President, this is another open question: In what denominations and in what market? The Senator from Utah has assumed that the denominations would be large and that they would be sold in the major money-markets, for no other reason than that the cost of breaking the certificates down into \$100, \$500, and \$1,000 units, and then disposing of them and trading in them, would be very high.

The claim has been made that this program would bring in private money to replace public money in the loan programs. To me, this is based on a fallacious assumption, because the Federal Government never gets any money that is not private money. It was private money that either paid the taxes or bought the bonds that provided the funds that made the loans. Now that the loans have been made, it is proposed to have private money come in and take them out again. One kind of private money would be replaced with another, or one kind of obligation would be replaced with another.

Another weakness in this situation has to do with the use of the money after the participation certificates had been sold. This brings us back to the fact that through the sale of these certificates, or the direct sale of the obligations, we could distort or conceal or destroy the opportunity for direct comparison on the cost of government. In a sense, we would be selling permanent assets or long-term assets for current expenses. That would be like selling the furniture to pay the grocery bill. It is the sort of thing people do when they try to live above their income.

I would feel better about the situation if the administration had assured us that it was prepared to tell us what the effect would be with respect to each succeeding budget. I shall propose an amendment which would require a special report to Congress as to the impact on the budget.

When this question was raised in the committee, the Director of the Budget pulled out a document and said, "Well, the figures are already here." But they are buried deep in a special analysis of Federal credit programs and never become related to the actual budget figure that appears in the headlines of the newspapers, and I am eager to relate them. We shall discuss that subject later.

To many people in this country—and the number is surprising, in terms of my experience, since the bill was introduced in the Senate—this proposal appears to be a gimmick to conceal the true operating budget figures and to prevent comparison. From now on, it would be a permanent program, spreading over the agencies that are finally included in it.

At the moment, I intend to vote against the bill, not because I think it is dishonest or immoral, but because I am concerned about and object to the speed with which it has been rushed through the committee and is being rushed on the floor and I object to leaving unanswered the remaining questions that I think should be answered.

I expect the bill to pass. Perhaps the bill will be passed more or less on a party

line. "As a Republican, I can read all kinds of sinister ideas into the program. We have been hearing talk about a potential tax increase in order to dampen the effects of threatened inflation. The bill would provide the administration, according to its plan, with \$4.7 billion without a tax increase and without an increase in official borrowing under the debt ceiling limit.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. BENNETT. I yield.

Mr. LAUSCHE. Mr. President, as the Senator knows, I am not on the committee. I should like to get certain information.

Does the bill provide in any way what the interest rate would be that the Government would pay to the buyers of the certificates in the pool?

Mr. BENNETT. They would be sold on the open market. The rates may vary from certificate to certificate. As I understand it, the certificates would be turned over to a professional underwriting individual, firm, or syndicate and would be treated the same as the distribution of any private issuance of debt would be treated.

Mr. LAUSCHE. Based upon the interest rate that the Government is getting from the mortgages which it holds, is it reasonable to anticipate that the interest rate that the Government would have to pay on the certificates would be greater than the interest which it collects?

Mr. BENNETT. I have no way of knowing because I do not know which loans would be placed in the pool. However, as the bill stands now, it is possible—although the administration says that it will not do so—to place the REA loans in the pool. The difference in that case would be the difference between 2 percent and whatever rate of interest the certificates would sell for, which is assumed to be somewhere above 5 percent.

Some loans might go into the pool which loans are now earning an amount approximately equal to the rate of interest for which these certificates would have to be sold. Therefore, we would have a whole range from the REA figure of 2 percent up to some loans on which we can assume there would be no difference in interest rate.

Mr. LAUSCHE. On page 20 of the report there is the statement:

Testimony offered by the Budget Bureau suggested that the differential may be as low as "25 to 35 basis points," or an additional 0.25 to 0.35 percent.

Does that mean the differential in the interest rate?

Mr. BENNETT. That is the differential between what the Treasury has to pay in order to borrow now, and what it would have to pay if it were to use this device.

Mr. LAUSCHE. That would mean an increased cost of between 0.25 and 0.35 percent.

Mr. BENNETT. Let us agree that there would be an increase in interest cost. Only experience would determine what the amount would be. That would be the outside limit, one way or the other.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. BENNETT. I yield.

Mr. WILLIAMS of Delaware. I point out that the most recent sale by FNMA shows that they paid an interest rate of 5.3 percent. This was a little more than six-tenths of 1 percent higher than the amount which the Government could have borrowed the money for if it had issued its own notes.

The Treasury claims that it will only be 0.25 of 1 percent or 0.35 of 1 percent, but history shows that it has paid about 0.5 of 1 percent interest over and above what they would have paid if they had financed the issue in a normal manner.

Mr. LAUSCHE. It can be assumed that the interest rate which the Government would have to pay on the certificates would be in excess of the interest rate which it would collect on the security.

Mr. WILLIAMS of Delaware. That is correct in all instances.

Mr. LAUSCHE. There is no question about that?

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. BENNETT. We are talking about two different things. On the one hand, we are talking about the difference in interest rate that the Government might have to pay if it were to sell its own bonds in a normal manner and the interest rate that it would have to pay if it were to sell participate certificates.

The other problem would involve the difference between the interest rates earned by the notes which are security for the certificates and the interest rate of the certificates. That difference in rate has already been created. It was created in a very real sense when the Government made the original loan.

Mr. LAUSCHE. Would the interest rate limitation which is applicable to the bonds sold by the Government apply to these certificates?

Mr. BENNETT. No.

Mr. LAUSCHE. That is presently 4.25 percent?

Mr. BENNETT. The Senator is correct. I said earlier that in my opinion this would be a very useful device to make an end run around the 4¼-percent limit. That limit would not apply because this would not be a Government bond.

Mr. LAUSCHE. Would this become a debt of the Federal Government, as contemplated by the prohibition which the debt ceiling places on the right to borrow?

Mr. BENNETT. This would be outside the debt ceiling.

Mr. LAUSCHE. Then it would be outside the interest-rate limitation and outside the debt ceiling?

Mr. BENNETT. The Senator is correct. I have tried to point out that, because of that fact, unless specific explanation is made, its effect on the earned deficit or surplus would be to minimize any deficit.

Mr. LAUSCHE. Was substantially the identical issue before the Senate in 1959 and was action taken on the matter at that time?

Mr. BENNETT. This is not identical. There were no participation certificates in 1959. The Treasury proposed to exchange 4 percent VA-guaranteed mortgages held by FNMA for 2¾-percent Treasury bonds which were outstanding and which were nonmarketable.

Mr. LAUSCHE. That would mean that the man would earn 1¼ percent through that process.

Mr. BENNETT. The bonds did not have a market because they were not transferable, but since they were 2¾ percent, their face value was higher than the remaining balance of the VA mortgages.

The Treasury Department exchanged VA mortgages of \$188,328,000 for bonds having a face value of \$192,151,000 in one exchange. In the second exchange, they traded \$131-plus million of these mortgages for \$129.7 million of bonds. The purpose of this transaction was to permit FNMA to continue its activities. It is estimated that the loss of income to the Government, including the servicing cost of 1 percent, was approximately \$6 million. However, on the other side, the difference in the face value of the FNMA obligations and its exchange was \$5.6 million. So the net difference was only \$0.4 million.

Mr. LAUSCHE. For what period of time was this bill before the committee for study?

Mr. BENNETT. In 1959?

Mr. LAUSCHE. No, the pending bill.

Mr. BENNETT. This bill was, I understand, before the House committee 1 day, and it was before the Senate committee 2 days.

Mr. WILLIAMS of Delaware. It was introduced on the 27th of April in the Senate. It was reported on the 28th of April. Those are the dates shown on the bill.

Mr. MUSKIE. We had hearings before the bill was introduced.

Mr. BENNETT. We had 2 days of hearings in the committee.

Mr. WILLIAMS of Delaware. Of course when the hearings were held the committee was talking about something that did not exist.

Mr. MUSKIE. It existed in the form of the House bill, which was before us.

Mr. WILLIAMS of Delaware. But the Senate bill was introduced on the 27th, reported on the 28th of April, and brought up for consideration the first day of this week. There certainly has not been an adequate opportunity for Senators to familiarize themselves with this bill. For that reason even the proponents of the legislation are finding out that there is much in the bill which they themselves and the administration never intended.

Mr. MUSKIE. I differ with the Senator. I will be glad to expand on it later.

Mr. BENNETT. Mr. President, may I yield so that the Senators may have a colloquy?

Mr. WILLIAMS of Delaware. We will have plenty of time.

Mr. BENNETT. Mr. President, I am almost ready to yield the floor, but I understood the minority leader had an-

other question he wished to ask, and I see he has come into the Chamber.

Mr. DIRKSEN. Mr. President, obviously the effect of this legislation would merely be to incur another debt when these participation certificates are sold, since they are guaranteed by the Federal Government.

Mr. BENNETT. That is correct. This is another form of debt, in order to achieve the same effect on the Treasury. If they did not use this form, they would have to issue an equivalent number of standard, regular bonds.

Mr. DIRKSEN. That raises the second question: How do they propose to style this debt? Will it be a contingent debt, or do they have some other name for it? Or will it be listed along with the regular public debt, under the Second Liberty Loan Act?

Mr. BENNETT. It is outside the debt ceiling; so if the debt ceiling relates to the listing under the Second Liberty Loan Act—a point upon which the Senator from Utah is not completely informed—then it would be outside of that listing.

Mr. DIRKSEN. So we owe it, but it is not listed as a part of our regular public debt?

Mr. BENNETT. The Senator from Illinois is correct.

Mr. DIRKSEN. So under that arrangement, when the Government sends out any kind of balance sheet which says, for example, "The public debt presently is \$323 billion," that is not the truth, after all, if we fail to list this somehow or other, and let the people know what the debt really is.

Mr. BENNETT. This would not be included in that figure. Of course, the administration has many billions of dollars of debt that are not listed under that figure.

Mr. DIRKSEN. There is the unfunded debt, for instance, and the commitments that have been made, which in my judgment and according to the latest figure run up to \$943 billion.

But I wish to know where this amount will be listed. We did enact a statute, early this year, introduced by the Senator from Massachusetts [Mr. SALTONSTALL], to obtain a balance sheet on this Government, showing assets and liabilities. It is taking the Treasury quite a while to put that together, but when it is completed, it will be the first time in the history of this country that we will be able to have a look at a consolidated balance sheet showing what we have and what we owe.

I am interested in knowing where, in that balance sheet, this is going to show up. The distinguished Senator from Delaware remembers very well when the Senate Finance Committee dealt with that bill and finally approved it, and it was approved also by the House.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. BENNETT. I am happy to yield to the Senator from Delaware.

Mr. WILLIAMS of Delaware. Under the purpose of this bill the mechanics are such that it would not be included as part of the national debt. It would not show up on the balance sheet as an

expense when reported to the American taxpayers at the end of the year.

Conceivably, if the bill is passed in the form in which it came from the committee, in the form in which it was sponsored by the administration, they could sell this \$33 billion worth of assets, apply the money received to the general revenues, spend it, and it would not show up as expenditures; nor would it show up as a part of our national debt.

In other words, if this bill passes it would be mathematically possible for the present administration for the next 3 years to spend \$10 billion a year more than it is taking in and to report to the American people that they have balanced the budget in every one of those years.

The President in his message to Congress made much of the fact that we need truth in packaging and truth in lending. I agree; we do need some consideration in those fields. But we also need truth in Government. Let us tell the American people the truth as to what is being spent by this administration.

I would like to quote just one sentence: "The purpose of this proposed bill is to achieve a balanced budget by selling off capital assets of the Federal Government. Such a balance would be fictitious and fiscally impossible."

This is not my quote. I am quoting from a statement of the party of the man now in the White House when a similar proposal was made in 1959.

Mr. BENNETT. Mr. President, the Senator from Illinois asked me a question. Other discussion has intervened. If he will repeat his question, I shall try to respond to it promptly.

Mr. DIRKSEN. I think that was about the question. I merely wish to know whether the American people are to be told what our debt really is. If we have \$10, \$20, or \$30 billion of debt which is not listed or included in the public debt figures, there is a rather ugly word for that kind of practice which perhaps I should not use.

Mr. BENNETT. Mr. President, I have one final point, which almost requires no statement, because we have seen it demonstrated in the past few minutes here in the Chamber.

I think when this bill is passed, our friends on the other side of the aisle could be handing the Republicans a very effective campaign issue.

On that note, Mr. President, I yield the floor.

Mr. WILLIAMS of Delaware. Mr. President, I hope that the manager of this bill will concur in the idea of recommitting the bill, taking it back to the committee, and working out whatever corrections they wish to make. I would be willing to agree that the bill could be reported back on a day certain, whether it is next week or the week after or whenever they feel they can do it.

I would further be willing to agree at this time that when it is reported back it comes back under a unanimous-consent agreement for limitation of debate, let us say 2 hours on each side, so that the bill could be considered the day after it is reported back, or whatever day the leadership wished to bring it up. I am not trying to delay a vote on the proposal.

I believe that whether I am for a bill or not its proponents are entitled to a vote, but I do question the wisdom of trying to amend this multibillion-dollar bill on the floor of the Senate.

It admittedly covers, for example, the British war debt. In 1945 this country loaned the British Government \$3.75 billion. The most recent report, issued last June, shows that \$3,149,059,000 is due on that note. It is a 2-percent note.

Under this bill as reported by the committee and before the Senate today we could sell participation certificates on that note, pay, we will say, 5 percent or 5½ percent on it, and put that note up as collateral but with the guarantee of payment by the U.S. Government. Why pay this extra 3 to 3½ percent to subsidize the difference in the interest rates?

That is an unsound proposal. The administration ran for cover as soon as it was exposed. One official in the Treasury Department argued that they did not intend for it to be in the bill; however, the chairman of the committee just now said he knew what was in this bill; so I presume other people did know it was there and intended it to be.

But, nevertheless, this is a perfect example of how unsound this proposal is. We are speaking of billions of dollars. I doubt if there are very many men in the country who understand a billion dollars. Certainly I am not one of them.

But to reduce this to layman's language, suppose a man has a \$1,000 note representing money he has loaned to some friend on the side which is secured by a mortgage against his farm, or perhaps it is just a plain outstanding note.

The operating expenses of his family exceed his income so he goes to the bank and arranges to discount the note by signing as endorser on the note. He receives \$1,000, puts it in his regular family income, and proceeds to spend the money. Can he say that for this particular year he has a boost in his income, and can he then spend this \$1,000 more than he earns and still say that he has a balanced family budget? Theoretically, he does not owe the money unless the note is defaulted. This is the same procedure before us today. We can discount notes of the CCC—\$2 billion. The Commodity Credit Corporation is a Government corporation and is already \$7 billion in the red. According to the last June 30 report CCC had borrowed from the Treasury \$13,539 million. Its inventory assets were listed at \$3,892 million. That includes the cost of their commodities at full value, including storage costs.

In addition it had loans of \$2,494 million. These loans represented money the CCC borrowed from the Treasury. Now under this bill they would sell the notes, take the money, and instead of paying the Treasury from whom they borrowed the money, they would put it in the general revenue and spend it on Great Society programs, conceivably to help balance the budget. This is a poor method of keeping books. This is fiscal irresponsibility, and those are the words used by a man who was once the majority leader and is now in the White House when this subject was discussed a few years ago. At that time, I agreed

with him that it was fiscal irresponsibility, the only trouble is that he has changed his mind since entering the White House.

We should not finance the Federal Government with any such irresponsible method as this. We need more truth in Government so far as the American taxpayer is concerned.

Mr. DIRKSEN. Mr. President, will the Senator from Delaware yield?

The PRESIDING OFFICER (Mr. DOMINICK in the chair). Does the Senator from Delaware yield to the Senator from Illinois?

Mr. WILLIAMS of Delaware. I yield to the Senator from Illinois.

Mr. DIRKSEN. Listed on page 18 is the Rural Electrification Administration, showing direct loans of something over \$4 billion. Those loans were made at 2 percent. If we put all that in the pool and then sold the certificates—and let us assume that they sell for 5½ percent—on every dollar of an REA loan, we would be losing 3½ percent; is that not correct?

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. DIRKSEN. If we put enough in here, we can go broke that much faster. It is like the fellow who sells suits under cost. When I said to him, "How do you do it?" he said, "That is because I sell so many of them." That is exactly what is involved here. Put in more of this 2 percent paper and we will lose 3½ percent on every dollar. I cannot think of a faster or a better way to go broke than doing just that.

Mr. LAUSCHE. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS of Delaware. The strange thing is that we can go broke without the American people realizing it, because to the extent we sold \$1 billion in notes in this manner, we would reduce the deficit as it is reported at the end of the year, and accordingly we would reduce the national debt by that much. We would not, however, have reduced the obligations to the U.S. Government to make good on that \$1 billion. The only thing we would have done would be to eliminate it from the bookkeeping.

Mr. DIRKSEN. That is correct.

Mr. LAUSCHE. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS of Delaware. I yield to the Senator from Ohio.

Mr. LAUSCHE. I have not analyzed this situation, but when we make a loan to the REA at 2 percent, when we borrowed the money at 3¾ percent, let us say, to make the loan, we would immediately lose 1¾ percent; but now we take the securities which the REA has given to us and on which they pay us 2 percent, and we sell certificates which cover these REA securities in a pool and we pay, let us say, 3¾ percent on the certificates; is that not correct?

Mr. WILLIAMS of Delaware. We would be paying 5.3.

Mr. LAUSCHE. Five and three-tenths.

Mr. WILLIAMS of Delaware. Five and three-tenths.

Mr. LAUSCHE. That means we would lose 1.75 percent on the initial trans-

action and will now lose an additional 3.5 percent in the second transaction; is that not correct?

Mr. WILLIAMS of Delaware. No—not exactly.

Mr. LAUSCHE. I have not calculated it.

Mr. WILLIAMS of Delaware. If we now lose 1.75 percent on the initial transaction our loss will be increased about double. We would be losing the difference between 2 percent and the 5.3. We would be losing 3.25 percent on that particular loan instead of 1.75.

Mr. LAUSCHE. But the fact is, we would be losing the difference between the interest rate that we collect on the securities which we bought and the interest rate that we have to pay on the certificates? Is that not correct?

Mr. WILLIAMS of Delaware. That is correct. As the Senator from Illinois [Mr. DIRKSEN] pointed out, we would be doubling the loss and going broke faster under this method.

Mr. LAUSCHE. I wish to summarize again some of the questions I asked the Senator from Utah [Mr. BENNETT]. First, the debt ceiling is not applicable to the sale of these bonds because it is not a debt.

Mr. WILLIAMS of Delaware. The sale of the participation certifications is outside the so-called statutory debt limit. It is the same as if the Senator or I discounted a note at the bank and then said that we do not owe the money because it was not a direct loan.

Mr. DOUGLAS. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS of Delaware. But that would not be counted as part of the national debt.

Mr. LAUSCHE. I see—

Mr. DOUGLAS. Mr. President, will the Senator from Delaware yield?

Mr. LAUSCHE. Just a minute—

Mr. DOUGLAS. I really cannot keep silent while this talk is being banded back and forth about REA loans being involved, because if the Senator from Delaware and the Senator from Ohio will look at the hearings on page 96, they will find a letter from the Director of the Bureau of the Budget, Mr. Schultze, dated April 29, addressed to the Senator from Virginia [Mr. ROBERTSON], which states in part:

I can assure you that in no event under the legislation now before your committee will any participations be sold in any REA loans.

Now, for Heaven sake, let us keep the discussion to the point and not take up utterly extraneous issues.

Mr. WILLIAMS of Delaware. The Senator from Illinois [Mr. DOUGLAS] is correct as to that statement being in the record. But the authority to sell these REA bonds is in the pending bill. The point I make is, if they do not intend to sell them then why did they ask for the authority in the bill?

Mr. MUSKIE. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS of Delaware. The authority is in the bill. I am glad to yield to the Senator from Maine.

Mr. MUSKIE. The Senator knows that in earlier colloquy, which took place an hour and 15 minutes ago, I made it

clear that an amendment would be offered which would exclude REA loans, which would exclude foreign-aid loans, and which would exclude other foreign loans, and include a little under \$11 billion of the \$33 billion portfolio. Most of the arguments the Senator has made since that time have related to this point. If the Senator is interested in killing time by discussions of this character extraneous to the issue which is now before the Senate, I shall be glad to stay here as long as the Senator wishes; but I believe that it should be made clear now—because it may have been forgotten in the hour and 15 minutes which have elapsed since the earlier colloquy to which I have referred—that what the Senator is talking about is not going to be acted upon in the Senate this afternoon.

Mr. LAUSCHE. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS of Delaware. Let me say this. The point I make is, that the authority is in the bill. They tried to put through the bill in a hurry. And had it been voted on 2 days ago, as attempted, it would still be in the bill. I repeat the authority is in the bill to sell the full amount of \$33 billion. There is no question about the authority. The Senator from Maine who is in charge of the bill, states that he will offer an amendment to exclude it. Certainly he cannot exclude that which is not in the bill. The point I am making is: Why did they ever seek such wide authority in the bill in the first place?

They have a tabulation of the items in the committee report. I did not write this tabulation for I am not on the committee—but the tabulation shows that under the bill the administration seeks authority to sell \$33 billion worth. There is no argument on that. Since we began the debate and pointed out the complete absurdity of selling bonds, such as the British loan, the CCC, and the REA loans, I understand that there will be an amendment offered that will remove these items from the bill. I am glad that they offered to straighten this out, but the point is—and let us get it straight—this authority is in here now, and an effort was made to keep it in there. If the Senator from Ohio—

Mr. MUSKIE. Mr. President, will the Senator from Delaware yield?

Mr. DOUGLAS. Mr. President—

Mr. LAUSCHE. The point that I am trying to make is—

Mr. WILLIAMS of Delaware. I yield to the Senator from Maine.

The PRESIDING OFFICER. The Senator from Maine is out of order.

Mr. MUSKIE. I will be glad to cover this at greater length subsequently, but I wanted to make it clear that what we are talking about is not relevant to the issue—

The PRESIDING OFFICER. The Senator from Maine is out of order. Let the Senator from Delaware determine to whom he shall yield.

Mr. MUSKIE. I thought the Senator from Delaware had yielded to me.

Mr. LAUSCHE. It seems to me that the louder the voice the quicker the recognition.

Mr. WILLIAMS of Delaware, I yielded to the Senator from Maine.

Mr. MUSKIE. That is what I understood.

Mr. LAUSCHE. Mr. President, will the Senator from Delaware yield further?

Mr. WILLIAMS of Delaware. I yield to the Senator from Ohio.

Mr. LAUSCHE. The principle I was trying to establish, whether it was the British loan or the REA loan, is that there will be an added cost to the Federal Government if the program is adopted. What the exact amount is cannot be foretold except through the statement made by the Director of the Budget that it will be either one-fourth of 1 percent or thirty-five one-hundredths of 1 percent.

My second question is, Is it likely and is it probable that if these additional funds are obtained through the disposition of assets, instead of spending through the collection of current taxes, there will be increased spending?

Mr. WILLIAMS of Delaware. There is no question but that that is the whole purpose of the bill. It is the purpose of the administration to carry its increased spending programs forward without showing a deficit on the books, and it would temporarily relieve the necessity for increasing taxes to that extent. We would be financing the cost of the Great Society programs by selling this Government's assets. As I pointed out before, it is like a farmer selling a part of his farm to pay for current living expenses in the hope that some day he will have a greater income. This is wrong. If it is done the American people ought to know what we are doing. We are liquidating some of our assets in order to spend more money today.

Mr. LAUSCHE. Will the adoption of this bill be more costly to the American people than a program of selling bonds?

Mr. WILLIAMS of Delaware. Certainly; there is no question about it. The lowest estimate made is that the additional cost will be one-quarter of 1 percent. An estimate has been made all the way from one-quarter to seven-tenths of 1 percent. The most recent rate of FNMA is an extra six-tenths of 1 percent. But even that additional one-quarter percent will mean an additional cost of \$5 million annually for each \$1 billion of the participation certificates sold not only for 1 year, but for all the years they are outstanding. So we are dealing with extra costs of at least \$50 million a year for the next 10 or 15 years. This is wholly unnecessary because the loans can be financed at a lower cost.

The cost does not go to the benefit of anyone except the bankers. I do not know what the title of the bill is, but perhaps the administration should call it a poverty program for the administration's banking friends.

Mr. LAUSCHE. What becomes of the important subject of deficit financing if the Government contemplates financing Government expenditures by the sale of its capital assets and refuses to levy taxes?

Mr. WILLIAMS of Delaware. The Government would be deceiving the

American people as to the true cost of its programs. Some day, when the last of these assets is gone, we will wake up with a shock, disturbing to all of us.

Mr. LAUSCHE. Was it not contemplated when these lending agencies and guaranteeing agencies were established that as the funds were collected back, the funds would be used for the purpose of reducing the debt which was incurred in financing the lending and credit guaranteeing agencies?

Mr. WILLIAMS of Delaware. That is correct, and that is the heart of this whole argument. When these loans were made the Government borrowed to finance them, and it was contemplated that when they were repaid the money would be used to pay off the bonds that were issued to borrow the money to finance these programs. Now it is proposed, to sell these notes and put the proceeds in the general revenues. This will help avoid raising extra taxes now yet still let them keep spending. I think we are inviting a chaotic situation at a later date. Chamberlain went to Munich to obtain what he thought was peace for his day. The administration in advocating this measure here today is equally shortsighted.

Mr. HRUSKA. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. HRUSKA. It was with interest that I listened to the manager of the bill say that there would be an amendment presented for the elimination of foreign aid loans, British loans, REA loans, and others. In due time I propose to interrogate the Senator on that subject.

What I wish to ask about now is whether the 3-percent housing loans, some of which are FNMA and some of which are FHA, will be included? If they are included as a basis for these participation certificates, it will mean that, as a Government, we will be drawing 3 percent on those moneys and will be paying 5 percent or more plus a service charge. In due time I shall interrogate the Senator from Maine on that point.

However, in the colloquy it was said it was irrelevant to discuss REA loans, British loans, and foreign aid loans, because an amendment will be proposed, and accepted by the majority, to exempt those. This Senator cannot understand why it is irrelevant.

I have reviewed the extent of the hearings on this bill. It was said there were 2 days of hearings. I presume those days were April 26 and April 28. I would like to ask the Senator from Maine if there were hearings other than those on this bill or subject in recent days or weeks.

Mr. MUSKIE. There were hearings on those 2 days to which the Senator has referred, and then on S. 2499, which includes the same principle, there was a hearing—

Mr. HRUSKA. I am not interested in that—

Mr. MUSKIE. I thought the Senator was interested in whether there was a hearing on a comparable subject. If he is not interested, why does he ask me the question?

Mr. HRUSKA. I did not ask for that information. The Senator from Maine said there were hearings prior to the introduction of the bill. My question was whether there were other hearings.

Mr. MUSKIE. I said there were 2 days of hearings on the bill, one on the day before it was introduced and one on the day after it was introduced. I was trying to provide the Senator excess information. I apologize for having made that effort.

Mr. HRUSKA. There is no need to apologize. The Senator is always generous with his information, and I am grateful to him.

My question was not for the purpose of being unfair to the committee. I would observe that reference to the hearings will show there were two witnesses on that first day, both proponents of this bill. On the first day the hearing opened at 10:05 and lasted approximately 2 hours. The second hearing ran from about 10:05 to 11:11, or approximately 1 hour. With this large amount involved, I do wonder how many million dollars a minute that would be. The mortgage banking witness stated that he was notified about the hearing at 9:15, which certainly did not give him much time. Here we have proposed a radical departure from our present fiscal and monetary policy, and there are only four witnesses who testified, two officials of the Government on April 26, and two on April 28, one of them not a banker, who appeared for a total time of 1 hour and 6 minutes.

So the relevancy of the colloquy is that with this meager record of a hearing, we have a bill involving huge sums of money.

I want to say to the Senator from Delaware that if he persists with a motion to recommit the bill to the committee, perhaps it can be ascertained if there are additional billions of dollars that would be involved. Perhaps the executive would like to inform us. Certainly the taxpayers and the American people should know. I subscribe to his statement. I agree there should be truth in packaging and truth in lending. But when it comes to Presidential messages, then we are in the dark as to truth in Government in disclosing our true fiscal picture.

Mr. WILLIAMS of Delaware. I thank the Senator for his contribution. He has pointed out the fact that hearings held on the 28th, the second day, lasted about 1 hour. The bill was only introduced the day before. The Senator knows that when bills are introduced they do not come back until 10 or 10:30 the following day. That means that the hearings were practically over before the bill arrived. One witness said that he was notified to testify at 9 a.m. This means that he did not even have a copy of the bill before he came down to testify. This is highly irregular.

There were practically no hearings in the House of Representatives on this \$33 billion proposal.

Certainly, it is not out of line to ask that this bill go back to committee. I would be willing to make a motion, but rather than making a motion to send it back to the committee I would like to

have an agreement with the manager that he will agree to its return and report back whatever findings and recommendations the committee may have.

We are told under this bill that they are not proposing to use any of these funds until next year; therefore, there is no reason why it has to be steamrollered through. However, I am very much encouraged by the fact that we have been promised that amendments will be offered to delete \$20 billion, or two-thirds of the proposed authority that was originally asked for in this bill. That is progress, but at the same time this is not the place to deal with amendments concerning \$10 billion and \$20 billion each.

How many more billions of dollars are in the bill that neither of us know about? Apparently neither do members of the committee. Some members indicate they did not know that REA loans were included.

When the Senator from Nebraska said this just a moment ago, a member of the committee took exception to our discussing REA loans because he did not know they were in the bill. But they are a part of this bill.

Under the bill, \$4 billion in REA loans—2-percent notes—and \$2,115 million worth of notes of the Commodity Credit Corporation could be sold.

Under this bill they could sell not only \$3 billion of the British war debt, but in addition there are \$8,997 million worth of loans made by the Department of State under AID which could be sold.

Are those to be sold? If so, what kind of situation would we be in? We cannot collect interest now on many of these loans. Yet we would have to pay 5.5 percent on their resale.

There are many questions that should be clearer to the Senate when we vote.

I asked if these participation certificates are Government-guaranteed obligations. The answer was "yes." But they did not know if they would be sold in denominations of \$1,000 so that the average John Doe could buy one of these high-interest-bearing bonds, or whether they would be in the minimum amounts of \$50,000 or \$1 million bonds, available only to a select crowd. Those answers are not here, and they should be here. They can be here only by the committee's obtaining an answer from the administration before we vote on the bill.

Mr. HRUSKA. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. HRUSKA. I have here the report of the other body on this particular bill. I am not talking about the principle. We do not enact principles in this body any more than they do in the other body. We enact specific bills.

The minority views contained this statement:

These views are for those who may wonder why a committee of the House of Representatives must report to the House after 3 hours of public testimony a bill whose gestation period in the Bureau of the Budget was at least 3—perhaps as long as 6 months.

By the time it was reported by the House committee, after 3 hours of hearings in the committee, and the time we reached the floor here, as of today, we

find two-thirds of the loans that originally were involved in this bill pared away and only \$10 or \$11 billion left.

I ask the Senator if there is not some reasonable likelihood if there were further scrutiny of the remaining \$10 or \$11 billion, whether or not there would be a likelihood of even further reduction or greater safeguards in this legislation?

Mr. WILLIAMS of Delaware. I think there could and I think it would be well to have more study. I point out again that this has been a highly irregular procedure when 1 day of hearings were held before the bill was introduced, and the second day hearings were held before the bill came back from the printer. Surely we are not in that great a hurry. There must be something in here that the administration did not want us to discover. If they had been successful in steamrolling this through last Tuesday they would have had it through with the authority for the full \$33 billion. Already by our debate we have knocked out over \$21 billion.

I appeal to the manager of the bill to take this bill back to the committee without making a rollcall vote necessary; but to take it back to the committee with the understanding that they will rewrite the bill and delete those provisions they now admit should not have been in the bill in the first place; and then report the bill back after hearings.

I wonder if the Senator from Maine would not agree to such a procedure?

Mr. MUSKIE. I take it that the Senator is awaiting an answer. I would be glad to say what I have already said to him personally.

In the first place, I can only speak for myself, and I have not made any such amendments as the Senator suggested have been made.

This bill involves points upon which Senators on the Republican side of the aisle and Senators on my side of the aisle have agreed; relatively few amendments and nothing involving the kind of major surgery of which the Senator speaks.

The major amendment involved is simply implementation of the program which the President spelled out in the same detail as is found in the amendment, which we are introducing when we have time, and the programs that are to be covered.

The President's letter of transmittal was dated April 20, 1966. It spells out the loan programs which were to be included in the next fiscal year if this legislation is enacted.

The major amendments, which we were about to introduce when the Senator from Delaware has finished, simply incorporate what has been the intention right along. There is no new intention whatsoever.

We have offered the amendment for the purpose of reassuring the Senator from Delaware and others that we meant what the President said in his letter of April 20.

The Senator says because we offer an amendment to reassure him that that offer is evidence in and of itself that the bill needs major surgery. Perhaps we

should not undertake to make amendments to develop a meeting; of the minds and consensus to the extent we can.

The amendment is offered in a helpful way, trying to reassure the Senator that what the President said on April 20 was what the President meant and what the agencies would do if it is enacted.

The other amendments are relatively minor.

Three offered by the Senator from Utah [Mr. BENNETT] are technical amendments involving nothing like major surgery.

The most important of those three is an amendment designed to place before Congress annually a record of what transpired under the program in the preceding year. This does not involve major surgery, as I see it.

There is one other amendment which I think was originated by the Senator from Nebraska [Mr. HRUSKA], undertaking to set a limit of 1 year on this authorization. The Senator from Utah and I agreed to the modifying amendment to set a limit of 2 years.

The PRESIDING OFFICER (Mr. LAUSCHE in the chair). Will the Senator repeat the last statement?

Mr. MUSKIE. I said that the amendment originally suggested to me by the Senator from Nebraska [Mr. HRUSKA] would have placed a minimum of 1 year on the authorization. I agreed to accept the amendment, provided the Senator would modify it so as to provide for 2 years. We are prepared to accept that amendment. This does not involve major surgery.

So we have considered and discussed with the Treasury all the points that have been raised prior to today by the Senator from Utah, the Senator from Delaware, and other Senators, and we are prepared to offer amendments now to implement them. No other difficulty requiring major surgery on the bill has been brought to my attention.

Mr. WILLIAMS of Delaware. Mr. President, we are told that some of the amendments are just minor and technical but—

Mr. MUSKIE. Mr. President, that is not at all an accurate paraphrase of what the Senator from Maine said. The record speaks for itself. I spoke of the major amendment, and I described it at some length. I did not call it minor or technical, and the Senator from Delaware knows I did not.

Mr. WILLIAMS of Delaware. Mr. President, I hope the Senator will control his blood pressure.

Mr. MUSKIE. My blood pressure is about the same as that of the Senator from Delaware, and will remain at that level. I submit to the Senator that he is in no position to read what is in this Senator's mind. I suggest that he confine himself to what is in his own mind.

Mr. WILLIAMS of Delaware. I make no effort to read what is in the Senator's mind.

The bill as it was reported carried authority to sell \$4 billion of the REA loans. I am reading from the report. We are told that that will be deleted.

The bill as it is reported provides au-

thority to sell \$2,115 million worth of Commodity Credit Corporation notes. We are now told that this item will be deleted.

The bill as reported by the committee provided authority to sell \$8,897 million worth of Department of State or AID loans. We are told that that item will be deleted.

I also understood that the amount of the British loan would be deleted. I intend to obtain the proper understanding on all these items before we vote on this bill.

Mr. President, I send to the desk a motion and ask that it be given immediate consideration.

The PRESIDING OFFICER (Mr. BURDICK in the chair). The motion will be stated.

The LEGISLATIVE CLERK. The Senator from Delaware [Mr. WILLIAMS] moves that S. 3283 be recommitted to the Committee on Banking and Currency.

Mr. WILLIAMS of Delaware. Mr. President, on this motion, I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. LAUSCHE. Mr. President, may I ask a question of the Senator from Delaware?

Mr. WILLIAMS of Delaware. I yield to the Senator from Ohio.

Mr. LAUSCHE. Does the bill contain a limitation on the dollar quantity of the bonds that may be put into the pool?

Mr. WILLIAMS of Delaware. The limitation under the bill, as I have been apprised by all authorities concerned, is \$33 billion, as the bill was originally reported. Now we are told that the limitation will be modified downward. As to around \$11 billion. We need another committee report to state exactly what will be left in the bill.

I am glad to get this \$20 billion reduction which means that two-thirds of the first required authority will be eliminated.

Mr. LAUSCHE. Mr. President, will the Senator from Delaware yield, so that I may ask a question of Senator MUSKIE?

Mr. WILLIAMS of Delaware. I yield.

Mr. LAUSCHE. What is the understanding of the Senator from Maine as to whether there is a limitation on the dollar quantity of the bonds and securities that can be put in the pool?

Mr. MUSKIE. Mr. President, will the Senator from Delaware yield so that I may answer the question?

Mr. WILLIAMS of Delaware. I yield.

Mr. MUSKIE. The proper answer to the Senator's question involves two points: First, what would be authorized? Second, what is planned to be done under the authorization?

On the authorization, the bill as now written would cover roughly \$33 billion worth of loans. Under the bill as it would be amended, if and when we reach the point of amending the bill, the authorization would cover programs involving \$10.9 billion worth of loans.

Mr. LAUSCHE. Would the amendment requiring a 2-year limitation also be included in the bill?

Mr. MUSKIE. I have that amendment ready to offer, yes.

With respect to what would be used under the authorization, it is planned, and has been planned right along, as indicated in the President's and in the administration's communications to the committee, in fiscal year 1967—that is the next fiscal year—to program \$4.7 billion worth of loans. Of that amount, some portion—\$1.8 billion or \$1.9 billion—could be sold in this way under existing law. Actually, under the authorization we are considering now, of the \$4.7 billion that it is planned to program next year, \$2.8 billion would be added by the proposed legislation.

These are the best figures I have.

Mr. BENNETT. Mr. President, at this point the Senate may be interested in a little current history.

The companion bill in the House has been before the Committee on Rules today, and that committee adjourned without giving the bill a rule. The inference is that the Committee on Rules will consider the bill again, no sooner than 1 week from today; so if it would be more effective for the Senate to recommit the bill to committee and make the proposed changes, in effect the other body has given us practically 1 week to do so.

Mr. President, if the Senator from Maine will yield, I wish to ask him a question or two.

Mr. MUSKIE. I shall be delighted to answer.

Mr. BENNETT. First, let the Senator from Utah say that if the bill is re-committed, the committee will have an opportunity to examine all the proposed amendments. If the bill is not re-committed, the amendment will be discussed on the floor of the Senate and disposed of there.

On Tuesday, I gave to the Senator from Maine a number of amendments to the bill that I thought should be considered. He graciously had them checked, and we have now reached a satisfactory arrangement as to most of them. However, the Senator from Utah has just become aware of the answer given by the Treasury to his proposed amendment on page 4, which would strike these words:

The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust.

I am sure the Senator is aware of the amendment, but I wish to discuss with him the answer the Treasury gave regarding its implications, in order to determine whether I have the same understanding of the meaning of that answer.

Mr. MUSKIE. Would the Senator pause for a moment, until I get my copy of that answer?

Mr. BENNETT. Yes.

Mr. MUSKIE. Is the Senator referring to the language on page 4?

Mr. BENNETT. Yes; lines 7 to 10.

Mr. MUSKIE. The Senator is correct.

Mr. BENNETT. As a background for our discussion, let me read the answer of the Treasury Department so that the other Senators can hear it. It reads:

The purpose of the provision which this amendment would delete is to make abso-

lutely clear that a sale of a participation in a pool of loans is the same as the direct sale of a loan, and should be treated as a direct sale of a loan in the Government's accounts.

I assume that there is a difference between the two. I continue to read:

The provision is included to avoid the contention which might be made that as long as the Government retains the paper evidencing the loan, even though it has sold an interest in the loan to someone else, the total face amount of the loan must remain a charge against any limitation placed on the total amount of loans which may be made.

Then the letter goes on to make an illustration as follows:

The effect of the provision can best be illustrated in the case of FNMA. The total amount of mortgages that FNMA may purchase, or commit itself to purchase, under its special assistance functions is limited, currently to approximately \$3,700 million. Whenever FNMA (special assistance functions) purchases a mortgage, or agrees to purchase a mortgage, the face amount of that mortgage is charged against the total purchase authority, and the available purchase authority is reduced.

I think that is perfectly clear.

Mr. MUSKIE. The Senator is correct.

Mr. BENNETT. I continue to read from the letter:

When a mortgage payment is made, or when a mortgage is sold, the charge against the purchase authority is reduced, and the purchase authority is restored. If FNMA bought a participation in a mortgage (as it has authority to do), the amount of the participation bought would be charged against the purchase authority, even though the Government did not take possession of the paper evidencing the underlying loan.

I can understand that. I continue to read:

If the participation were subsequently sold, the charge against the purchase authority would be reduced.

We are talking about participation in a particular, single loan and not about an issuance of participation certificates.

Mr. MUSKIE. The Senator is correct.

Mr. BENNETT. I continue to read from the letter:

This provision insures that a participation sold by FNMA is considered in the same way as a participation bought by FNMA.

That is perfectly clear to me and I have no question about it. I continue to read from the letter:

If this amendment were adopted and this provision were eliminated from the bill, the action might be interpreted as congressional intent that a sale of participations in an asset was not to be treated in the same way as a direct sale of the asset.

To the extent that they are referring to participation in single loans, I have no problem. However, I suggest a hypothetical situation that could exist under the bill, and this is what gives me a problem. Suppose that agency X has an authorization limit, not an appropriation limit, of \$100 million, and suppose that it is loaned to its limit so that it has no further authorization available.

If this bill were to pass, and the agency were to take \$12 million of its loans and place that amount in a pool and sell participation of \$10 million against that,

would that action free \$10 million? Title would not pass to the loan.

Would that action create a situation in which the agency could actually have \$110 million worth of loans outstanding because it has sold \$10 million worth of participation, and could the agency thus break through the authorization ceiling?

The purpose of my amendment was not to interfere with FNMA participation—I do not want to use the word "involve-ment"—in a joint loan program with somebody on the outside with respect to a single loan. I hope this bill will not be interpreted to the point at which it can be used to break through authorization ceilings.

Mr. MUSKIE. I probed this question rather thoroughly myself because many programs with different substantive laws or charters are involved.

Mr. BENNETT. The Senator is correct.

Mr. MUSKIE. I found that it was most difficult to categorize them with respect to the question—the very proper question—that the Senator asked.

I shall try to give in answer that is as responsive and as understandable as I can on the basis of my understanding of what has been told me.

The question basically that the Senator asks is whether the proceeds of these participation certificates can be used by the lending agency for additional loans.

Mr. BENNETT. Beyond the authorization ceiling.

Mr. MUSKIE. I wish that the Senator would withhold that part of the question.

Mr. BENNETT. All right.

Mr. MUSKIE. The question the Senator asks is whether the proceeds of these participation certificates would be available for additional loans. My answer is that it would depend completely upon what the program's basic legislation provides.

There are two broad categories that I think we can distinguished on this point. First, there are programs in which there is a ceiling on the total amount of the outstanding loans. Second, there are programs in which there is no ceiling, but in which there is a limit on the amount of new loans that can be created each year. There are these two broad categories.

Mr. BENNETT. I want to clarify those two categories. Is the Senator referring in the second category to a kind of moving ceiling?

Mr. MUSKIE. For example, in the Farmers Home Administration and the academic facilities program, two of which would be included under the bill when the amendment is agreed to, there is a stated amount of new loans that are authorized each year.

Mr. BENNETT. It would grow by increment rather than by ceiling.

Mr. MUSKIE. The Senator is correct with respect to that, as I understand it, that the increment cannot be enlarged by the proceeds of participation certificate sales from existing loans. Do I make that clear?

Mr. BENNETT. That is perfectly clear.

Mr. MUSKIE. So as to that category of loans, which covers two of the eight programs which are involved, the answer to the question of the Senator is "No."

Now, with respect to programs which have a ceiling on the total outstanding loans, there is a different answer. Let me list those which are involved. They are the Small Business Administration, college housing, FNMA, Export-Import Bank of Washington, public facilities, and VA direct loans.

With respect to Small Business Administration, the answer is "No." This has been the position taken by the SBA in its interpretation of its lending authority, so that even on the direct sale of these loans, it does not regard the proceeds of such direct sales as eligible for new loans without authorization from Congress.

So that with respect to SBA the answer is "No." With respect to the other five programs, the answer is the same as it would be for direct sales of these loans, and direct sales of course can be with or without recourse.

As to the direct sales with recourse to the Government, which are comparable in terms of the continuing Government liability, the answer is the same, as it would be under the pending bill with regard to the sale of participation certificates.

Now, with respect to sales of these loan papers without recourse, those cannot be used—I think I am correct on this—under existing law to renew or to enlarge the lending authority and, of course, would not be covered under this legislation.

Now let me see if I can summarize what I have said to the Senator. His basic question, as I understood it, was whether or not the proceeds of the sales of participation certificates can be used for new loans.

Mr. BENNETT. Above—

Mr. MUSKIE. Well, whether it is above or below the ceiling is something that is argumentative.

Mr. BENNETT. All right; leave that out.

Mr. MUSKIE. If we leave that out, it depends upon, first of all, whether or not there is a ceiling on the agency's total outstanding loans. If there is no ceiling, and the agency's program is governed by limits on the amount of new loans that can be made each year, the sale of certificates cannot be used to enlarge those limits.

With respect to SBA where there is a ceiling on total outstanding loans, the proceeds of the sale of participation certificates cannot be used for new loans. With respect to other agencies where there is a ceiling on total outstanding loans, they would be treated under this legislation in the same way that the proceeds of direct sales of the loan paper would be treated.

Mr. BENNETT. This leads me to wonder whether we should not have more language in the bill to deal with the problem. That is a very simple statement; but behind the statement are two or three variations of treatment.

Mr. MUSKIE. May I make one other point before I forget it?

Mr. BENNETT. Yes.

Mr. MUSKIE. It is a point that I think is very pertinent on the question which the Senator has raised. Under the bill, the Widnall amendment requires specific appropriation acts to authorize the creation of participation sales pools to be implemented under this act. As the Appropriations Committee consider requests from the administration for specific authority, which the Widnall amendment requires, the facts—bearing upon the point that the Senator has raised—will, of course, be taken into consideration, and the appropriations committee can decide to what extent the requests made by the administration for authority are to be limited or reduced by the law bearing upon the use of proceeds of such sales in the agencies involved.

Mr. BENNETT. I think I understand the Senator's explanation. But the Senator from Utah really wonders whether we should not write these distinctions into the bill, rather than depend on a very simple phrase which, on its face, is not clear and requires a very careful explanation every time somebody reads it and asks, "What does this mean?"

Mr. MUSKIE. The difficulty with writing it into the bill, as the Senator knows, is that there are as many charters as there are programs, some 51 in all. There are about 10 under this bill. To try to capsule the existing state of the law with respect to each agency would, I think, entail an impossible legislative task.

Mr. BENNETT. The Senator made it clear that there are essentially two categories of agencies, those that operate under a ceiling and those that operate under annual increments; and then we have a subclassification those that are sold with recourse and those that are sold without recourse.

If this is an accurate and complete analysis of the problem we are facing, that does not seem to me to be insuperable.

Mr. MUSKIE. Whether it is accurate or complete, of course, depends upon this Senator's expertise and understanding of this field. I have not tried to mislead the Senator.

Mr. BENNETT. I am well aware of that.

Mr. MUSKIE. I have spent a good deal of time attempting to get the facts so that I could answer this question, which I expected to be asked, as clearly and precisely as I could. But as to further legislation dealing with this point, I think it depends upon whether or not the Senator wishes to change the present state of the law. I think if we wish to change the basic state of the law on it, there are probably two approaches: First, to amend each of the substantive statutes involved, or second, an across-the-board, meat-ax approach which may produce undesirable results.

The intent of the bill—and this I can state clearly—is that as to those programs where the proceeds of the sales of direct loans can be used for new loans under present law, it is the intent of this bill that the proceeds of the sale of par-

ticipation certificates could be used to the same effect.

Mr. BENNETT. As though they were sales of the loans themselves?

Mr. MUSKIE. That is correct. In those programs where that is possible now, that is the intent of this bill.

Whether or not such proceeds are in fact used for new loans can be controlled by the Appropriations Committees in the first instance, at the time that they authorize the sale of the participation certificates for the pool arrangement that is proposed; and, second, of course, the agency itself may choose not to use the available funds for new loans.

Mr. BENNETT. I understand that. But let me return to my original question, and limit it with respect to those loan programs that are governed by a ceiling which has been set by law—which the Senator identifies for me as the Small Business Administration, College Housing, FNMA, Export-Import Bank, Public Facilities and VA direct loans.

Is it not theoretically and in effect actually possible that, since the Federal Government is to retain title to the loans, the actual volume of loans in the agency's portfolio can have a face value higher than the ceiling?

Mr. MUSKIE. Well, as the Senator knows, under another amendment that he has proposed, which he will offer and to which I have agreed, the legislation will provide that title will have passed to FNMA. I think that was the effect of the Senator's amendment.

Mr. BENNETT. All right.

Mr. MUSKIE. Title will have passed to FNMA.

Mr. BENNETT. But FNMA is in this list.

Mr. MUSKIE. FNMA as trustee with respect to agencies outside itself.

Mr. BENNETT. Yes. I still return to the question: Are we creating a situation under which, as far as the record goes, the actual face value of loans held by FNMA as trustee or held by FNMA for its own sake, or any other agency governed by a ceiling, the actual dollar volume of the loans in the portfolio will be higher than the ceiling?

Mr. MUSKIE. That depends, of course, upon what accounting method a given Senator prefers.

Mr. BENNETT. Yes.

Mr. MUSKIE. Under the present state of the law, when paper is sold on direct sales, with recourse to the Government, that paper is not listed as part of the national debt.

Mr. BENNETT. It is gone. It has been sold.

Mr. MUSKIE. But still the Government is obligated. It is sold with recourse to the Government if the paper goes bad.

So the situation I am talking about, under the proposed legislation, would be exactly the same. The accounting, presumably, should be about the same, because it is a contingent obligation of the Government.

Most of the loans will be repaid—at least the history is that most of them have been—so that the liability of the Government is contingent and much

smaller than the face amount, and there is participation by the private sector.

How is this paper to be accounted for? Different Senators will have different preferences. Schedule E of the budget, which now discusses, in 13 pages of detail, the Federal credit programs, presumably would continue to disclose what is happening under this program.

Then, in addition, another amendment which will be offered by the Senator would require reporting to the Congress, so that the information would be available to us.

The Senator and I both regret that it is not possible to show the budget of the United States on a single page. It would be possible at a glance to see the total assets of the Government, the total liabilities of the Government; but minor as are the financial operations of the Senator from Maine, I cannot show mine on one page. Therefore, I believe that most of the space is taken by liabilities rather than by assets. Nevertheless, it is a difficult thing to do.

(At this point Mrs. NEUBERGER took the chair as Presiding Officer.)

Mr. MUSKIE. Madam President, I appreciate the desire of the Senator from Utah—and I concur and support it—that we try to make the record of what we are doing under these programs as clear as we can. Unfortunately, because of the details involved and the number of programs and the variations involved, if we were not to tell the whole story, we would be deceiving the American people because we would be hiding the variations and the details.

How do we compromise between full disclosure which will give so many details as to be confusing, or partial disclosure? When we get to that point, what do we disclose or what do we not disclose, which would perhaps give a clearer picture to the extent that it would ignore the details and thus be slightly inaccurate—I do not use the word “deceptive,” but “inaccurate.”

The problems of accounting are not simple. We should try to make the accounting as simple as possible, of course, but should recognize that we cannot make it as simple as we might like.

Mr. BENNETT. I appreciate the help of the Senator from Maine in discussing this problem. I am still puzzled and a little bothered. Perhaps, with a little time, we could find a solution which would make this clearer; but, as of now, I still feel that on the basis of the standards of present accounting, we will find ourselves facing a situation in which we will have to decide how much margin we still have under the ceiling. I believe that it would be simpler if we could find some kind of system by which the selling of participation certificates, while we still hold the assets, would not impinge on this problem of, “Have we bumped our head against the ceiling?”

Mr. LAUSCHE. Madam President, will the Senator from Utah yield for a question of the Senator from Maine?

Mr. BENNETT. The Senator from Utah has the floor, but I will be glad to yield the floor at this time.

Madam President, I yield the floor.

Mr. LAUSCHE. Madam President, I will take the floor then.

The PRESIDING OFFICER. The Senator from Ohio is recognized.

Mr. LAUSCHE. Madam President, in 1959, there was before the Senate a bill embodying the principle substantially as it appears in the pending bill today. President Eisenhower contemplated and proceeded to exchange mortgages held by FNMA for Government bonds so that he would have moneys to finance 1960 operations.

A resolution was submitted in the Senate condemning President Eisenhower's program of disposing of FNMA securities at a return less than would be obtainable by the Government if it continued possessing them.

In 1959, with 56 other Senators, I joined in disapproving what President Eisenhower had a right to do. The vote was 56 to 29. The Senator from Delaware [Mr. WILLIAMS] disapproved of the President's program, and I disapproved.

My question to the Senator from Maine is: If, in 1959 I disapproved of the disposition of FNMA mortgages for the purpose of financing current operations, can I consistently vote today to support President Johnson's proposal that he dispose of Government securities in FNMA or other organizations to finance current operations?

Mr. MUSKIE. Of course, that is a question which the Senator from Ohio will have to decide for himself. There may very well have been changes in the Senator's view of the problem, changes in the problem itself, and changes in market conditions then and now. Perhaps other conditions are different now than they were then, and the Senator from Ohio might wish to take them into consideration which conceivably would lead him to a different conclusion. That is a question for the Senator to determine.

We had an interesting colloquy on the floor on Tuesday on this point of consistency, with the Senator from Delaware [Mr. WILLIAMS], and I agree that the vast majority of Senators, on both sides of the aisle, are still inconsistent with the issue which has been raised.

Mr. LAUSCHE. Madam President, in 1959, the Senator from Maine stated that President Eisenhower was wrong in what he was trying to do, but today he argues that President Johnson is right in trying to do the same thing which was wrong when recommended by President Eisenhower. Is the answer that conditions have changed?

Mr. MUSKIE. Again, the Senator from Ohio missed a very enlightening discussion of the position of the Senator from Maine which took place on Tuesday afternoon, wherein was raised the same question which the Senator is now raising. I must say, on the record, I am inconsistent. The Senator from Delaware asked me why I take the position that I take now. The answer I made to the Senator is that I have been further exposed to the problems which have become more aggravated since 1959. The problem keeps climbing, so I finally have come to the conclusion that it was necessary to do something to devise some reasonable uses, which I outlined to the Senator from Ohio, as I did to the Senator from Delaware on Monday. That

is the record. I can be accused of partisan expediency. Whether I am or not will depend upon how credible my explanation is to the Senator.

Mr. LAUSCHE. Madam President, the only reason I raise the issue is that the Senator from Maine threw me into consternation a short time ago—

Mr. MUSKIE. I did that privately, not publicly.

Mr. LAUSCHE. He talked to me about taking an inconsistent position. The fact is, I opposed President Eisenhower's proposal and today I am opposing President Johnson's proposal. I will be consistent on the item—that is, I take the position that we cannot start selling capital assets to finance current operations; we cannot start selling assets to avoid deficits; we cannot start selling capital assets to escape the limitations on the right to incur debts on the ceiling adopted by the Congress which now is \$328 billion; nor can we do so to escape the interest limitation of 4¼ percent which is now allowed to be paid on the borrowing of money.

Madam President, I wish the record to show that I was greatly relieved after the Senator from Maine said, “You are inconsistent,” to go to the record and find that I am completely consistent.

Mr. MUSKIE. Madam President, will the Senator from Ohio yield further?

Mr. LAUSCHE. I yield.

Mr. MUSKIE. I believe that I should say, partly in justification of myself, and partly to reassure the distinguished Senator from Ohio, that what I might say in private was only to “needle” him. However, the Record is something different from what I would say in private, seriously to challenge his record. It is not my intention to make any such challenge to him. There were a number of votes on the issue. I suppose an interpretation of those votes, of mine and of the Senator's, or anyone else's, could involve considerable controversy, as to whether a Senator is consistent or not; but that is not my purpose. The Senator's vote would be consistent with his 1959 vote on the merits of the bill, if he were to vote against the administration's proposal.

Mr. LAUSCHE. I want to concede to the Senator from Maine that, finally, we have to decide whether there are new circumstances, because of the war in Vietnam, that might require a different vote in 1966, when we are acting on President Johnson's recommendation, compared to the vote which was cast when we were voting on President Eisenhower's recommendation.

But as for myself, Madam President, whether it was Eisenhower the Republican or Johnson the Democrat, my vote will be consistent.

Mr. LONG of Louisiana. Madam President, will the Senator yield?

Mr. LAUSCHE. Madam President, I have the floor.

Mr. LONG of Louisiana. I will wait for the Senator from Maine to conclude.

Mr. LAUSCHE. If the Senator from Louisiana wishes to comment on my remarks, I yield to him to do so.

Mr. LONG of Louisiana. Madam President, may I address myself to the Chair?

The PRESIDING OFFICER. The Senator from Louisiana.

Mr. LAUSCHE. Madam President, I yield the floor.

Mr. LONG of Louisiana. Madam President, for the life of me, I cannot understand why Senators should insist that the Federal Government should engage in deceptive bookkeeping.

Take my State. Moneylenders make small business loans. They are permitted to charge 3½ percent a month. That works out to about 42 percent. With carrying charges it sometimes amounts to 100 percent a year on loans.

Those moneylenders do not want to compete with any legitimate Federal loan. They do not want the Federal Government to lend money to the small businessman or a poor man. So they contrive this method to show that the Government lends money to the REA, so that an electric line may be built; or to a small businessman, to help him stay in business, no matter how distressed he may be, so he can cut down his complete loss. It is put down on the books as though the Government had lost every cent of that loan.

The Government has not lost money. It may lend it at 3 percent, and may earn 5 percent on that money, and get most or all of that money back. But our lenders' friends, headed by that great institution, the Federal Reserve Board, want it written as though the Government had lost every penny of that loan. In the way our friends who back the moneylenders would like to get it on the books as if every penny of that loan had been lost.

With ingenuity, contrivance, and genius, they want it to appear that the money lent to poor people, every penny of which may be paid back by an honest, poor man, amounts to a loss of millions of dollars.

They and their lender friends, some of whom make the magnificent sum of 100 percent per year in interest, want it to appear that the Government is losing money because it makes the loans. Wonderful. If I were working for those moneylenders, I would be working hard to make people believe the same thing.

On the other hand, if I were trying to help a little businessman, a farmer, a small fellow trying to get a powerline so he could have an electric light in his home, then I would do my best to make it appear that that loan was not lost; that what the Government did was borrow money from the public, which includes that particular person, and loaned it to that little fellow, who wanted to improve his condition.

Certain Senators can engage in this mischief and do all they want to continue to do what has been done through the years and have an act passed by the Congress to say that this country is \$325 billion in debt and has not 1 penny of assets; but we are the richest Nation in the world.

If one wants to borrow from a bank, he goes to a bank, and lists his assets first, and then he lists his liabilities. Then the liabilities are subtracted from the assets, and they show his net worth, and the banker will check out those assets.

By the time the banker subtracts one column from the other, the borrower ends up with having quite a bit, and he can be loaned a lot of money on that showing.

Our friends on the other side stand up and fight for the moneylenders who make 100 percent interest per year on the poor man who wants to bury his mother. By the time he gets around to paying his debt after 5 or 6 years, and having it refinanced, he ends up having paid the full cost and still owing more than what the original loan was on the day he buried his mother.

What are we trying to do? We are trying to say that if money is owing, the Government will be able to sell that note, so that the small businessman can be helped, so that the man who was in a "tight," who needed some money, who might have a little cotton gin in my part of the country, who could not get money from any bankers, who was trying to protect his creditors, who could have gone into bankruptcy, but did not want to, who was fighting to stay in business and pay off his debts in an honest way, who was willing to work himself down to a frazzle so he could stay in business, would be able to get a loan. Instead of a small bank going broke, for example, to the detriment of the people who own some of that bank stock, this small businessman gets another chance to make a living and pay off his honest debts.

How do we do that? We say, "Take the note. We will guarantee it. If you cannot make it, we will pay it off. Then we will sell the note and guarantee that the buyer will get every penny that the note states."

Here is another fellow. We will pay off the creditor. We will pay off the note. Everybody will be better off.

What is the only objection? Some of our friends on the other side of the aisle who represent moneylenders, who get handsomely rich off these people, say, "We must get rich, and every time the Federal Government helps a poor man, whatever is loaned to him must be counted as adding to the public debt and counted as a liability. Do not count the assets."

That is all we are talking about.

If we want to do so, we can even see to it that when a poor man is in a tight spot, he cannot borrow money from the Government. But if we want to help the small businessman, if we want to help the poor little fellow who is trying to pay off his honest debts, we should stand by our friend, the Senator from Maine, and stand up for the Small Business Administration, for the little man, and try to bypass all this complicated argument that is produced by the money lenders and their friends that when the Government lends money it should be considered as if it had lost every penny of it.

Why do they want it that way? Because if they can keep the Government from making loans, the loan sharks will be able to make a 100-percent return per year on their loans to these same hard-working Americans.

We talk about honest bookkeeping.

This country is the richest nation in the world. Does anyone know of any country whose bonds yield a lower interest rate than ours? We are the richest nation in the world.

Our people are too well informed and they are too sophisticated to believe those stupid arguments that we are poor.

Now, we hear the Senator from Delaware stand on the floor and make speeches that if we want to help the small business people we must increase the national debt by that figure, even though they pay it back.

I hope that some day we will engage in honest bookkeeping, and we will set up an account, when we loan somebody money or if we borrow money, to show the difference in what we are paying them and what they are paying us. If we are subsidizing them, all right; that is what we are doing and we are willing to pay it.

On the small business loans we lost some money and we were happy to do it.

We are standing by the working man and the little man, the kind of people we Democrats represent. I hope that we will stand up and fight for these people.

Mr. WILLIAMS of Delaware. Madam President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. WILLIAMS of Delaware. I listened with a great deal of interest and amusement to the remarks of the Senator from Louisiana. I always enjoy them even though they do not have anything to do with the issue that is before the Senate today.

Mr. LONG of Louisiana. It is a fundamental question. The Senator comes from Delaware. One group elects him in Delaware. I assume that the best people in that State are informed, and they do not need small business loans. The people who vote for me in Louisiana do. I represent a different class of people.

Mr. WILLIAMS of Delaware. Again I thank the Senator from Louisiana. I always enjoy his remarks and I shall yield to him any time he wishes.

This measure does not affect one iota the amount of money that could be loaned under the small business program. The only question before the Senate is the fact that some \$33 billion worth of these loans have already been made. The Government holds the notes and now wants to sell them and apply the proceeds to pay daily expenses of Government.

The question before the Senate is: Will the Government sell those notes under participation certificates, put the money in the general revenue; and spend it as though it were additional income?

There are \$33 billion worth of assets in small business, the REA, and various other agencies, and if the bill is passed or it was reported, the Government could, under the authority of this bill, sell this \$33 billion worth of assets, put the money in general revenue, and conceivably for the next 3 years spend \$10 billion more than it was taking in, and report to the American people that there was a balanced budget. That would be a deceitful practice.

The Senator from Louisiana and Senators on his side of the aisle made statements about the moneylenders getting rich in 1959 when President Eisenhower suggested this on a much smaller scale and I joined them in opposing the measure.

I quote one authority as to what this bill does:

The purpose of the proposed bill is to balance the budget by selling off assets of the Federal Government—

That statement was made by a member of your own party, the majority leader, who is now the President of the United States. Both the Senator from Louisiana and I agreed with him in 1959.

Why does the Senator from Louisiana defend an action he condemned so bitterly only 7 years ago?

I still agree with that statement. It is fiscal irresponsibility. It is not truth in government, it is nothing but a windfall for the bankers as it was described in 1959. They will get an extra six-tenths of 1 percent in interest.

Mr. LONG of Louisiana. Madam President, will the Senator yield for a question?

Mr. WILLIAMS of Delaware. I yield to the Senator for a question or for a speech.

Mr. LONG of Louisiana. If the Senator would like to help the rank-and-file people of this country; would be willing to join me in an effort to reverse the action of the Federal Reserve Board when it increased the rate of interest, in order to see if we cannot save this Government that \$3 billion, and save the kind of people who work for a living about three times that much, or about \$10 billion? Would he be willing to join in that effort? If he would, I think we might get somewhere.

Mr. WILLIAMS of Delaware. I am always interested in proposals of the Senator from Louisiana.

Mr. LONG of Louisiana. The Senator from Delaware will be the next chairman of the Committee on Finance when the Republicans take over.

I would be curious to know if he would be willing to join me in making that fight so that the people can pay a lower rate of interest, which is as much as 7 percent on housing.

Mr. WILLIAMS of Delaware. I will reply to the Senator in the same manner as I did when he argued against interest rates under the Eisenhower administration. By the way, interest rates are higher today than they were then by 1 percent. Money is a commodity. As long as there is a greater demand for money than there is an available supply, the interest rates are going to go up. The best way to cut back interest rates is to stop deficit spending by the Federal Government, so that we will not have to borrow so much of it and be in competition with private industry.

As long as the Federal Government insists on spending \$6 billion to \$10 billion more than its income, it will have to go out into the money market, and there are bound to be higher interest rates.

Since 1961 this administration spent \$36 billion more than it took in. That is \$500 million a month deficit for every month since 1961. When the Government runs a deficit it has to borrow that money.

The way to cut back is as President Johnson suggested the other day, only he did not go far enough. He said that if the cost of pork chops is too high stop buying them. I say if the cost of money is too high, stop spending it, and then you will not have to borrow so much.

The President insists that the reason he cannot cut spending is because Congress is increasing appropriations. That may be true. There is only a minority of us trying to hold the line, but why does he not veto these bills?

I will join in raising a collection to buy a box of veto pens to send to the White House so the President can veto these bills.

But as long as the President keeps signing every spending bill I am not interested in his pious statement as to how much he is against spending. The only way to stop spending is to veto the bills. In Congress the only way to stop spending is to vote against the proposal. The way to bring down the interest rate is to stop deficit spending.

I will gladly join the Senator from Louisiana if he wants to make the effort and I suspect I will be leading the way.

Mr. LONG of Louisiana. Franklin D. Roosevelt and Harry Truman showed us how to keep interest rates low back at a time when demand was very high. They were viciously criticized by the moneylenders. I have not heard the Senator criticize them.

As far as I am concerned, I would like to keep interest rates low.

A man and his wife today who sign a mortgage have to pay 20 percent more by the time they get through paying for their home than they paid under the Truman administration. That is a big penalty to pay.

I would like to see the interest rate go back to where it was under those two Presidents. We had control then, in time of war. We had regulation acts to limit consumer buying on what one could buy in wartime.

As far as the rank and file of people were concerned, under those two Presidents they had a real interest in the money borrower, the little fellow, and the rate of interest was kept low. If they signed a 30-year mortgage, they could pay it out, and they were protected by a President who was on their side.

The Senator can be sure I will support any effort made to reduce interest rates. I did not hear him say that.

He did refer to various other things, such as putting taxes on them and engaging in various tactics, but I did not hear him say that he would use his best efforts to reduce the interest rate.

Mr. WILLIAMS of Delaware. The only way to reduce interest rates is to remove the cause for the interest rates being higher; that is, cut down on the demand. If there is too much air in a

tire, it is not corrected by pumping in more air.

President Johnson recognized this at a recent conference at the White House. He appealed to the businessmen to cut back on plant expansion and the elimination of every project possible. He asked the housewives to cut back on their spending, but he failed to say that he would lead the way and cut back on Government expenditures.

He is insisting on the Federal Government continuing every Great Society program that he ever had. Perhaps some of these plans are meritorious but they can wait until we have won the war in Vietnam.

It is necessary to cut back when the money is not available. The President, rather than appealing to the businessman alone, would do much better to lead the parade and say, "I am going to cut back on Government spending. You join me." I would like to see him lead the parade. Instead, he is saying, "I want you to cut back, but I want the extra money you save so that I can spend it."

This is a situation in which we all have to cut back on some programs. I would have to agree to cutting back on programs in the State of Delaware, the Senator from Louisiana would have to agree to cutting back on some programs in Louisiana, and we would have to wait until the money was available to spend. Let us face it—we do not have the money today, when we are fighting a war in Vietnam.

I am hoping that my good friend, the Senator from Louisiana, will join me in this proposal for economy, because I think he has struck at the heart of the question. Cut back on spending.

If the President is disappointed with what the members of his party in Congress are doing, and if he will veto those bills, we in the minority will sustain his veto and save him from the spendthrift policies of some of his own party.

Mr. LONG of Louisiana. My recollection is that there was a great deal of spending when Franklin Roosevelt was President and when Harry Truman was President. Notwithstanding that spending, a little man could borrow money and finance a home at low interest rates. The same was true of people who had to borrow money generally.

The Senator from Delaware gives me lengthy answers. From my point of view, all we are saying is that we would like to lend some money to some little fellow, a small businessman, who cannot borrow money at all. We would like to give him an honest, decent loan at the going rate of interest. In order to do that, we would like to sell some of the notes we presently hold.

It is fine to engage in semantics, but it boils down to one thing: The Senator would like to say that every time the Federal Government goes to the aid of a poor man, a farmer, a small businessman, every dollar that is borrowed is to be regarded as a loss, presumably never to be collected.

What we are saying is that if a note is sold for what it will bring, the Govern-

ment will get back that much money. To that extent, we refute the Senator's presumption that the money never will be repaid.

Mr. MILLER. Madam President, will the Senator yield?

The PRESIDING OFFICER. Does the Senator from Louisiana yield to the Senator from Iowa?

Mr. LONG of Louisiana. I yield.

Mr. MILLER. Madam President, I have followed the discussion with a great deal of interest. The arguments of the Senator from Delaware are much more persuasive to me, particularly because he has premised his case on the same arguments that he used in 1959.

I was not a Member of the Senate in 1959, but recently I saw some figures, issued by the Federal Government, indicating that in 1960 a person could buy a house for \$12,000. But in 1965, 5 years later, as a result of the inflation which has grown during the 5 years of this administration, that same home costs \$13,300.

In addition, the inflation that ensued during those 5 years brought the interest rate up. At the present time, a person who buys a \$13,300 home with say, an 80 percent, 20-year mortgage, will spend \$1,700 more in interest.

So as the result of the fiscal policies of this administration, a home that cost \$12,000 in 1960 now costs \$3,000 more.

Mr. LONG of Louisiana. Madam President, will the Senator yield?

Mr. MILLER. In a moment.

The Senator from Louisiana talks about poor people. The poor people are the ones who are getting stuck the worst with the inflation that has been caused by the so-called fiscal policies of this administration. The President has said that inflation hurts worst those who can least afford it—the poor people.

If the Senator is really concerned about poor people, why does he not put into effect fiscal policies that will stop inflation? Unless that is done the poor people will become poorer. It does not make any difference if their wages go up a little. It will be more than offset by inflation. That is why the President, the Senator's President, said what he said.

Mr. LONG of Louisiana. Madam President, will the Senator yield?

Mr. MILLER. I yield.

Mr. LONG of Louisiana. Let us consider the man who borrows \$7,000. Everyone knows that when inflation struck, the first thing that went up was wages, so his wages doubled or more than doubled. That meant that so far as his income was concerned, the burden of the mortgage was half what it had been. As far as he was concerned, he was benefited by inflation. As a matter of fact, he probably paid it off and was done with it because of the increase in wages.

It was all I could do, as chairman of the Finance Committee, to defeat amendments to automatically raise payments just this year and thereby prevent the social security payments from going up, with a resulting progression of inflation.

One amendment was offered on the Senator's side of the aisle—the Republican side—and another was offered by a Democrat.

The Senator says that when inflation hits, the cost of living goes up and the social security payments suffer. If wages go up by more than that amount, then the wage earner actually wins. Inflation does not always hurt a poor man. If his wages go up, the price he is paying on a mortgage is actually reduced by inflation. If inflation takes 3 percent from his purchasing power and he is paying 7 percent, and if his wage goes up by 3 percent, then he should be paying only 4 percent, this puts him back at the 4-percent rate, provided his wages went up when inflation hit.

The Senator from Iowa should tell us whether he is for the moneylender or for the borrower. We are talking about making money available for borrowing by the man who needs it.

Mr. MILLER. The Senator has been making a big fuss about the poor man, the borrower, and the moneylender. I do not know of much difference on either side of the aisle on this point. There may be a lot of demagogic speeches on this subject, but I do not believe any Senator wants the borrower to pay an excessive amount of interest, any more than he wants the lender to receive an excessive amount of interest.

The Senator from Louisiana tried to cover the point I made by assuming that a poor man's wages have gone up twice. If he is attempting to beg the question, nobody will win that argument. The point is that that is not what is happening to many hundreds of thousands of such people. As a matter of fact, last year, when the social security tax was increased 7 percent, the proposal sounded good to the social security pensioners; but even with that increase, they do not have as much purchasing power as they had in 1958. Think of the hundreds of millions of dollars of cost to that segment of society as a result of the inflationary dollars of this administration.

Mr. LONG of Louisiana. The Senator from Vermont [Mr. PROUTY] offered that amendment. He said if the cost of living went up, the social security payment would go up. It was all I could do to head off that amendment and try to be fiscally responsible. The point is that Congress has increased the social security payments to offset the increase in the cost of living.

Mr. MILLER. It was not offset even with the 7-percent increase. That is the trouble.

During the consideration of the medicare bill last year, the Senator from Iowa proposed an amendment to give the social security pensioners an automatic cost of living increase, but the Senator from Louisiana would have none of it, even though he knows that that group of people can least afford to bear inflation.

I want to make this point, Madam President; then I shall yield the floor. The pending measure sounds to me as though it will aggravate a high-interest situation.

In my State of Iowa money is terribly tight at the present time. Businessmen would like to expand their plants to provide more job opportunities for people. Many people need loans in Iowa today. Many farmers need loans. We now propose to lay a foundation for taking pri-

vate money out of the private sector and putting it into the public sector, into Government participation certificates.

I think it will make money even tighter. I believe that, regardless of one's philosophy on whether we should sell assets to help pay for operating expenses, this is perhaps the worst time at which we could engage in this kind of activity.

If the Senator from Louisiana has people in his State who are interested in getting loans to help them get along in farming or in small business, I suggest to him that the interest rate will get higher if this bill passes.

Mr. LONG of Louisiana. Madam President, I accept the challenge, and on an appropriate occasion, I shall offer an amendment to reduce interest rates. If I get a majority on the Republican side of the aisle, I will clap my feet in the air.

The PRESIDING OFFICER. The question is on agreeing to the motion to recommit. On this question, the yeas and nays have been ordered and the clerk will call the roll.

The legislative clerk called the roll.

Mr. LONG of Louisiana. I announce that the Senator from Tennessee [Mr. BASS], the Senator from Virginia [Mr. BYRD], the Senator from Idaho [Mr. CHURCH], the Senator from Pennsylvania [Mr. CLARK], the Senator from Connecticut [Mr. DODD], the Senator from Mississippi [Mr. EASTLAND], the Senator from Tennessee [Mr. GORE], the Senator from Arizona [Mr. HAYDEN], the Senator from Massachusetts [Mr. KENNEDY], the Senator from Washington [Mr. MAGNUSON], the Senator from Oregon [Mr. MORSE], the Senator from Utah [Mr. MOSS], the Senator from Georgia [Mr. RUSSELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Missouri [Mr. SYMINGTON], and the Senator from Maryland [Mr. TYDINGS], are absent on official business.

I also announce that the Senator from New Mexico [Mr. ANDERSON], the Senator from Alaska [Mr. BARTLETT], the Senator from Maryland [Mr. BREWSTER], the Senator from North Carolina [Mr. ERVIN], the Senator from New Mexico [Mr. MONTROY], the Senator from Wisconsin [Mr. NELSON], the Senator from West Virginia [Mr. RANDOLPH], and the Senator from South Carolina [Mr. RUSSELL] are necessarily absent.

I further announce that, if present and voting, the Senator from Alaska [Mr. BARTLETT], the Senator from Massachusetts [Mr. KENNEDY], the Senator from New Mexico [Mr. MONTROY], the Senator from Oregon [Mr. MORSE], the Senator from Utah [Mr. MOSS], and the Senator from Maryland [Mr. TYDINGS] would each vote "nay."

On this vote, the Senator from Maryland [Mr. BREWSTER] is paired with the Senator from North Carolina [Mr. ERVIN]. If present and voting, the Senator from Maryland would vote "nay," and the Senator from North Carolina would vote "yea."

On this vote, the Senator from Pennsylvania [Mr. CLARK] is paired with the Senator from Tennessee [Mr. GORE].

If present and voting, the Senator from Pennsylvania would vote "nay,"

and the Senator from Tennessee would vote "yea."

On this vote, the Senator from West Virginia [Mr. RANDOLPH] is paired with the Senator from South Carolina [Mr. THURMOND].

If present and voting, the Senator from West Virginia would vote "nay," and the Senator from South Carolina would vote "yea."

Mr. KUCHEL. I announce that the Senator from Hawaii [Mr. FONG] is absent on official business.

The Senator from Vermont [Mr. AIKEN], the Senator from California [Mr. MURPHY], the Senator from Kansas [Mr. PEARSON], the Senator from Massachusetts [Mr. SALTONSTALL], the Senator from South Carolina [Mr. THURMOND], and the Senator from Texas [Mr. TOWER] are necessarily absent.

If present and voting, the Senator from Hawaii [Mr. FONG], the Senator from California [Mr. MURPHY], the Senator from Kansas [Mr. PEARSON], the Senator from Massachusetts [Mr. SALTONSTALL], and the Senator from Texas [Mr. TOWER] would each vote "yea."

On this vote, the Senator from South Carolina [Mr. THURMOND] is paired with the Senator from West Virginia [Mr. RANDOLPH]. If present and voting, the Senator from South Carolina would vote "yea," and the Senator from West Virginia would vote "nay."

The result was announced—yeas 23, nays 45, as follows:

[No. 72 Leg.]

YEAS—23

Allott	Dirksen	Miller
Bennett	Dominick	Morton
Boggs	Fannin	Mundt
Burdick	Hickenlooper	Prouty
Carlson	Hruska	Simpson
Cooper	Jordan, Idaho	Williams, Del.
Cotton	Kuchel	Young, N. Dak.
Curtis	Lausche	

NAYS—45

Bayh	Jackson	Muskie
Bible	Javits	Neuberger
Byrd, W. Va.	Jordan, N.C.	Pastore
Cannon	Kennedy, N.Y.	Pell
Case	Long, Mo.	Proxmire
Douglas	Long, La.	Ribicoff
Ellender	Mansfield	Robertson
Fulbright	McCarthy	Scott
Gruening	McClellan	Smathers
Harris	McGee	Smith
Hart	McGovern	Stennis
Hartke	McIntyre	Talmadge
Hill	Metcalf	Williams, N.J.
Holland	Mondale	Yarborough
Inouye	Monroney	Young, Ohio

NOT VOTING—31

Aiken	Fong	Randolph
Anderson	Gore	Russell, S.C.
Bartlett	Hayden	Russell, Ga.
Bass	Kennedy, Mass.	Saltonstall
Brewster	Magnuson	Sparkman
Byrd, Va.	Montoya	Symington
Church	Morse	Thurmond
Clark	Moss	Tower
Dodd	Murphy	Tydings
Eastland	Nelson	
Ervin	Pearson	

So the motion to recommit was rejected.

Mr. MUSKIE. Madam President, I should like to take this opportunity to make two corrections in the committee's report—Senate Report No. 1140, 89th Congress, to accompany S. 3283.

At page 4 of the report a section-by-section analysis begins. The heading reads "Section-by-Section Analysis of H.R. 14544." It should read "Section-

by-Section Analysis of S. 3283." The same incorrect reference to H.R. 14544 appears in the fourth paragraph on page 6.

Another misprint occurred at page 9 in the course of the statement of "Changes in Existing Law," made in accordance with the Cordon rule.

At the 13th, 14th, and 15th lines of paragraph 2, a sentence begins, "The Association may be named." The introductory part of the sentence, down through the end of line 15 should read as follows:

The association may be named and may act as trustee of any such trust and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: *Provided, That,*

It seems appropriate to note these corrections in the CONGRESSIONAL RECORD rather than incur the expense of a star print.

I should like to make note of the fact that the committee held its second and concluding hearing on this bill on Thursday. The printed record of the hearing and the committee report were available Monday morning. In view of the exceptional haste in preparing the 98-page record and the report, the occurrence of two misprints can readily be understood.

Mr. YARBOROUGH. Madam President, section 8 of the proposed Participation Sales Act authorizes a study of the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs. After studying the proposed legislation, I have come to the conclusion that we would perhaps be wiser to enact section 8 and hold the rest of the bill until we see the results of that study.

UPWARD PRESSURE UPON INTEREST RATES

Two effects of this legislation disturb me very much. First is the effect upon interest rates. It appears that the legislation will exert upward pressure upon interest rates. In this regard I would like to read one paragraph of a letter from Charles E. Walker, speaking for the American Bankers Association:

In addition, we are concerned with the impact of the implementation of the program contemplated under H.R. 14544 and the demands it will place on the money and capital markets at a time when private demands for funds are active and strong. From the standpoint of timing, such a program could be better implemented at a time when the banking system and long-term investors are actively seeking earning assets because of a limited availability of such in the private sector. The proposed Government agency financing may very well have a considerable rate impact in the market. So long as economic conditions continue expansive and private demands for funds are heavy, the agency financing will exert upward pressure on interest rates. This pressure could be felt in the market for direct Treasury obligations and rate adjustments could take place in that sector. The sheer magnitude of the administration's program—\$3.3 billion in this fiscal year and \$4.7 billion next year—raises the question as to whether all of the Government agency funds can be raised in this time interval.

I ask unanimous consent that the letter from the American Bankers Association be printed at this point in the RECORD.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR SENATOR ROBERTSON: The American Bankers Association desires to take this opportunity to express its views on H.R. 14544, a bill to promote private financing of credit needs and to provide for an effective and orderly method of liquidating financial assets held by Federal credit agencies and for other purposes, which we understand will shortly be under consideration by your committee.

Inasmuch as H.R. 14544 has been introduced to carry out a definitive policy decision of the administration, we are not expressing any comments on such policy decision. Nevertheless, we are concerned about certain aspects of the legislation as outlined below.

H.R. 14544 provides a mechanism for financing the Treasury through the issuance of securities by the Federal National Mortgage Association representing beneficial interests or participations in certain loans made by various agencies of the Government. The Government agencies responsible for administering the loan programs which will be utilized as a basis for the issuance of participation securities will retain custody, control, and administration of the obligations securing the participation certificates. FNMA will promptly pay to the agencies whose obligations form the basis for the issuance of participations the full net proceeds of any sale of such beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds will be dealt with as otherwise provide by law for sales or repayment of such obligations. In most cases, this will make the proceeds available for new loans to the extent authorized under existing programs.

In my letter to you of February 28, 1966, with reference to S. 2499, a bill to amend the Small Business Act to authorize issuance and sale of participation interests based on certain pools of loans held by the Small Business Administration, we expressed our concern about certain implications of that bill which we believe also applies to H.R. 14544. We desire to restate such comments, in part, as follows:

1. The type of transactions envisaged seem to us to be simply another type of deficit financing, rather than a genuine substitution of private for public credit, but at interest rates higher than is effected in the usual manner through sales of Treasury obligations. Although no serious objection could be made to this alternative type of financing of itself, the higher interest cost that is likely to be incurred should be of concern to both taxpayers and the Congress.

2. Debt operations of the type authorized in H.R. 14544 bypass the public debt ceiling and the interest rate ceiling on new issues of Treasury securities with maturities beyond 5 years. Our purpose here is not to defend the arbitrary manner in which these limitations can impinge on budget spending and Treasury debt management. But we do believe strongly that the issue of our relaxation or elimination of these limitations should be confronted directly in the Congress and not bypassed through alternative methods of financing.

In addition, we are concerned with the impact of the implementation of the program contemplated under H.R. 14544 and the demands it will place on the money and capital markets at a time when private demands for funds are active and strong. From the standpoint of timing, such a program could be better implemented at a time when the banking system and long-term investors are actively seeking earning assets because of a limited availability of such in the private sector. The proposed Government agency

financing may very well have a considerable rate impact in the market. So long as economic conditions continue expansive and private demands for funds are heavy, the agency financing will exert upward pressure on interest rates. This pressure could be felt in the market for direct Treasury obligations and rate adjustments could take place in that sector. The sheer magnitude of the administration's program—\$3.3 billion in this fiscal year and \$4.7 billion next year—raises the question as to whether all of the Government agency funds can be raised in this time interval.

The Government agencies that have been regular borrowers in the market for many years (such as Federal intermediate credit banks, Federal home loan banks, Federal land banks, FNMA, etc.) have increased their borrowing demands both in terms of magnitude and frequency of borrowing. This borrowing has already become more expensive in relation to direct Treasury obligations and the spread in rates has widened as a consequence. The rate spread could widen further as enlarged Government agency borrowing reaches the market, particularly if this increases the frequency of borrowing operations. On some recent occasions, it has appeared that the Government agencies were competing among themselves for funds and have had to pay a higher rate in the market because of this.

Section 2(b) of H.R. 14544 amends section 302(c) of the Federal National Mortgage Association Charter Act by giving FNMA authority to issue securities under the new program "notwithstanding any other provision of law." We believe it is essential that the authority of the Federal National Mortgage Association to issue securities as contemplated under H.R. 14544 be made subject to the approval of the Secretary of the Treasury in order that such transactions be handled with utmost care so as not to disturb market financial processes more than is absolutely necessary.

Very truly yours,

CHARLES E. WALKER.

Mr. YARBOROUGH. Madam President, testimony was received on this point from the Farmers Union, which feels that the legislation would adversely affect farmers borrowing from the Farmers Home Administration. As it is, many banks which lend farmers money through FHA-insured loans also make additional, uninsured loans to the farmer. This is done because of the initial relationship between the farmer and the bank which is created through the FHA-insured loan and because of the margin of safety which the FHA-insured part of the total amount borrowed gives the bank. The Farmers Union pointed out that a banker would be loath to lend money for housing and tractors if all he had to do was pick up the phone and buy a participation at 5½ percent which was guaranteed and which could be sold or held at his discretion.

I ask unanimous consent that the Farmers Union memorandum be printed at this point in the RECORD.

There being no objection, the memorandum was ordered to be printed in the RECORD, as follows:

FARMERS UNION MEMORANDUM ON H.R. 14544, THE PARTICIPATION SALES ACT OF 1966

1. The purpose of this legislation is to get the Federal Government out of the lending business. According to Budget Director Schultze, the Federal Government should not act as a bank; all Federal lending pro-

grams and assets should be taken out of the Federal Government and turned over to private business.

2. The Federal National Mortgage Association Charter Act is amended and the Association is given authority to issue "participations" which shall be guaranteed as to principal and interest by agencies of the United States.

3. The head of any executive department, agency, or instrumentality of the United States is authorized to set aside a part or all of any obligations held by him. The agency "shall guarantee" to the trustee timely payments thereof.

4. The "trustee" which would issue the "participations" is the Federal National Mortgage Association which gets investment bankers to handle the paper and sell the participations on the public money market. The bill indicates that all of the funds raised by the sale of the participations shall be turned over to the agency or trustor. The trustee is the mortgage association commonly referred to as "Fannie Mae." These are the principal provisions of the bill.

5. Here is what will happen: The loan agency which might be Farmers Home, Housing, or Small Business, or any one of the lending agencies, must, we believe issue these participations if the administration so desires. The language says specifically of the agency "he is authorized to set aside all or part of an obligations held by him." We believe the effect of this language will be mandatory.

6. First, the lending agency will turn over the loan papers to "Fannie Mae" and as a result participations will be issued. The New York banks and others will underwrite them, "Fannie Mae" having decided that they are salable and worth their face value. Interest rates or effective yields, we assume, will be agreed on by "Fannie Mae" and the bank and other underwriters.

7. Example: The agency and Fannie Mae decide to lump together papers held by farmers homes, small business, and housing agencies, totaling, say \$1,500,000, the participations are then sold on the public market for 6 percent plus a servicing fee. We do not believe that the rate will be much lower, since 90-day Treasury bills now stand at 4.7 percent, and prime securities are around 5 to 5½ percent. Suppose that the loan paper held by the agency on which the participations are based, average 4 percent. It is evident that the Treasury will have to make up the difference. In other words, there will be a subsidy of 2 percent.

8. Aside from costing the Federal Government additional money which the banks will pocket, the issuance of guaranteed paper will have an adverse effect on the home mortgage institutions. A banker would be loath to lend money for housing, tractors, etc., if all he had to do was pick up the phone and buy a participation at 5½ percent which was guaranteed and which could be sold or held at his discretion.

9. Savings and loan associations under the law are not allowed to share in these participations; however, to compete with this new money market they will have to raise their interest rates or else go out of business and the general effect will be, of course, together with the other operations mentioned, to raise interest rates all along the line.

10. A final point should be made. Home-town bankers and even relatively large banks are having a tough time because of the policies of the Federal Reserve Board. They are having to pay a 4½-percent discount rate and are in competition with institutional moneylenders who, under the ruling of the Board, may get 5½ percent on time deposits. Another factor is the fact that reserves in the

banks have reached a minus figure. The Federal Reserve Board has been selling securities on the open market thus decreasing liquid reserves of the banks. The result has been to bring about a very tight, high interest situation.

INCREASED COST TO THE FEDERAL GOVERNMENT

Mr. YARBOROUGH. Madam President, the second thing about this bill that disturbs me is the increased cost to the Federal Government. A table appearing on page 90 of the hearings estimates that the increased cost to the Government of the participation sales that would be made through this bill would be \$20,592,000 in 1966. In 1967 it would be \$29,571,360. The total extra cost to the Government for 15 years is estimated at \$381,336,720. I ask unanimous consent that the table be printed at this point in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

ESTIMATE OF ADDITIONAL COSTS TO GOVERNMENT OF FUNDING THROUGH PARTICIPATIONS

Total estimated additional cost of participation sales during year of sale of \$2,185,000, or 0.624 percent of principal amount.¹

Recurring annual expense for 15-year estimated maturity of participation certificates is \$2,185,000 (less underwriter's expense of \$1,155,000) or \$1,030,000, which equals 0.294 percent of principal amount.¹

Fiscal 1966 sales of \$3 billion times 0.00624 equals \$20,592,000.

Fiscal 1967 sales of \$4 billion times 0.00624 equals \$29,571,360.

Recurring annual expense for both equals \$8 billion times 0.00294 percent times 14 equals \$331,173,360. Total for 15 years: \$381,336,720.

We believe there is a reasonable expectation that the difference between Treasury borrowing costs and rates on participation certificates will widen from the 0.25 used in this example as the quality of loans in the pool declines—actually, or in the investor's opinion.

Mr. YARBOROUGH. I am going to vote for the bill, Madam President, which is so strongly requested by the administration. But I do so with considerable misgivings. I urge the Secretary of the Treasury to make a thorough study of this whole matter under the authority granted him through section 8 and come back to Congress with an exhaustive, objective report in 6 months, when we shall have another look at the subject.

Mr. MUSKIE. Madam President, as soon as the floor situation is clarified, I shall offer five amendments. I should like to give the Senate some idea of what to expect. I have five amendments which I shall offer in behalf of myself and the Senator from Utah [Mr. BENNETT], and one amendment with the Senator from Nebraska [Mr. HRUSKA]. I shall offer them en bloc. I understand that the Senator from Delaware [Mr. WILLIAMS] will wish to ask a few brief questions bearing upon these amendments. I understand further that the Senator from Utah will wish to have a colloquy on another point.

¹ Using figures from Government Accounting Office report.

The entire process, I hope, will consume not more than 20 minutes. It might stretch to a half hour. At that point, we will have a rollcall vote on final passage, unless some other unexpected developments take place.

Mr. BENNETT. Madam President, will the Senator yield?

Mr. MUSKIE. I yield.

Mr. BENNETT. I do not think we will take more than 10 minutes. I hope not.

Mr. MUSKIE. Madam President, I ask for the yeas and nays on final passage.

The yeas and nays were ordered.

The PRESIDING OFFICER. Is the Senator from Maine submitting his amendments at this time?

Mr. MUSKIE. Yes.

Madam President, I send to the desk five amendments, and I ask unanimous consent that reading of the amendments be dispensed with, and that they be considered en bloc.

The PRESIDING OFFICER. Without objection, it is so ordered. The amendments will be considered en bloc.

The amendments offered by the Senator from Maine [Mr. MUSKIE] are as follows:

On page 2, delete line 25, and on page 3, delete lines 1, 2, and 3, and substitute therefor the following:

"(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as herein provided by each of the following Departments or Agencies:

"Department of Agriculture: Farmers Home Administration;

"Department of Health, Education, and Welfare: Office of Education (with respect to loans for construction of academic facilities);

"Department of Housing and Urban Development (including the Federal National Mortgage Association);

"Veterans' Administration;

"Export-Import Bank;

"Small Business Administration.

"The head of each such Department or Agency, hereinafter in this subsection called the 'trustor', is authorized"

On page 2, strike lines 3 through 12 and insert in lieu thereof the following:

"(3) by striking out the words 'offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof' in the first sentence thereof and by inserting 'and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called "obligations," in which any Department or Agency of the United States listed in section 302(c) of this Act,"

On page 3, line 17, strike out "be deemed to have passed" and insert in lieu thereof "pass".

On page 5, line 8, beginning with "Any" strike out all through the period in line 9, and insert in lieu thereof the following: "Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year."

On page 10, line 7, after "Sec. 8." insert "(a)".

On page 10, after line 16, insert the following:

"(b) The Secretary of the Treasury shall each year make a report to the Senate and House of Representatives setting forth—

"(1) the net increase or decrease during the preceding fiscal year (A) in the aggregate principal amount of obligations acquired by

the executive departments, agencies, and instrumentalities of the United States which may be subjected to a trust under section 302(c) of the Federal National Mortgage Association Charter Act, and (B) in the total amount of outstanding beneficial interests or participations in such obligations; and

"(2) the extent to which the sale of such beneficial interests or participations reduced the deficit or increased the surplus realized by the Government in its operations during the preceding fiscal year."

Mr. MUSKIE. These amendments, Madam President, would do these things:

One amendment would reduce the coverage of this bill from the \$33 billion of outstanding direct loans in the Federal portfolio, involving some 51 agencies or programs, to a little less than \$11 billion, involving 6 agencies.

Mr. BENNETT. Six.

Mr. MUSKIE. Six agencies. Those agencies are listed in the amendment as follows: Department of Agriculture, Farmers Home Administration; Department of Health, Education, and Welfare, Office of Education, with respect to loans for construction of academic facilities; Department of Housing and Urban Development, including the Federal National Mortgage Association; the Veterans' Administration; the Export-Import Bank; and the Small Business Administration.

The second amendment would limit the authorization contained in this bill to 2 years. This is an amendment offered by the distinguished Senator from Nebraska [Mr. HRUSKAL], which I have cosponsored.

The third amendment, offered by the Senator from Utah [Mr. BENNETT], would require reporting the activity under this bill to the Congress each year. The Senator from Utah may wish to describe it in greater detail.

There is another amendment, which is a technical amendment on the question of the passage of title from the lending agency to the Federal National Mortgage Association.

The amendment which I offer in behalf of the Senator from Utah [Mr. BENNETT] clarifies that point, to make it clear that title passes.

Those are the amendments now being considered, which have been carefully reviewed by Senators on both sides.

Mr. MUNDT. Madam President, will the Senator yield?

Mr. MUSKIE. I yield to the Senator from South Dakota.

Mr. MUNDT. Will the Senator state whether, in this condensed form, the authority does or does not cover REA or RTA?

Mr. MUSKIE. It does not cover rural electric or telephone loans made by the REA.

Mr. HOLLAND. Madam President, will the Senator yield?

Mr. MUSKIE. I am happy to yield to the Senator from Florida.

Mr. HOLLAND. The Senator said he has conferred with Senators on both sides. Has he conferred with the chairman or ranking members of the Senate Agriculture and Forestry Committee, with reference to the Farmers Home Administration?

Mr. MUSKIE. I have not; no. But the legislation has been—

Mr. HOLLAND. Madam President, I happen to be a member of that committee, and I have heard nothing of any conference on this subject. I also happen to be chairman of the Senate Subcommittee on Appropriations which handles agricultural appropriations; and I am not prepared to say, with reference to the Farmers Home Administration, that this is good policy.

If the Senator from Louisiana [Mr. ELLENDER] or the Senator from North Dakota [Mr. YOUNG] have been conferred with, and have agreed that this is good policy, that is something else. But as far as I am concerned, I have heard nothing of this item. I hope that the distinguished Senator will advise us whom he has conferred with on both sides of the aisle with respect to this particular agency.

Mr. YOUNG of North Dakota. Madam President, will the Senator yield? This is the first I have heard of it.

Mr. MUSKIE. May I say to the Senator, the agencies I have described have been covered by this bill from the moment it was introduced. No question such as that suggested by the Senators has been raised in discussion of the proposed legislation until this moment.

When I said that there had been conferences with other Senators, I meant conferences with other Senators involved in the debate on the proposed legislation on the floor of the Senate during the last 2 days. This includes the Senator from Utah, the Senator from Nebraska, and the Senator from Delaware, all of whom raised questions which are involved by the amendments which we have reviewed with them, and which we have checked with the Federal agencies involved in order to try to bring to the Senate a responsible judgment on the validity of the amendments.

If there is a basic question on the bill itself which concerns the Senator from Florida and the Senator from North Dakota, I wonder why it has not been raised before. I have not conferred with any Senator about a question of which I was unaware.

Mr. HOLLAND. The Senator probably is justified in feeling that all Senators should know what is included in the bill. It happens that I have been busy today in three or four other committee matters. I was busy yesterday on similar matters. Today, among other things, I sat in the conference committee on the Supplemental Appropriations bill, and have been in hearings all afternoon on the Public Works Appropriations Subcommittee. Then, since that committee adjourned a few minutes ago, I have been talking with some agricultural people about my duties as chairman of the Subcommittee on Agricultural Appropriations.

I invite the attention of the Senator from Maine to the fact that other Senators not on the Banking and Currency Committee can have no possible way to know about the heavy coverage of this bill unless it is called specifically to their attention. When the Senator stated that he has conferred with Senators on both sides of the aisle, I started out believing he had talked with the Senator

from Louisiana [Mr. ELLENDER] and the Senator from North Dakota [Mr. YOUNG], or both of them, or the distinguished Senator from Vermont [Mr. AIKEN].

Apparently, he has talked with no one who has any special knowledge of the agricultural situation. I therefore want the Senator to know that the Farmers Home Administration administers many different classes of obligations. Although it does deal with many different types of loans affecting farmers, some of these new type loans recently authorized under new legislation deal with problems that do not relate to farmers at all, necessarily, but with small communities and even country clubs. I had notice day before yesterday from the Farmers Home Administration that they just granted a loan for a water system to a golf course in my State.

To bunch all these together and say that they can liquidate these obligations and then pursue their very great field of activities, almost unregulated by Congress, is something that I would not wish to agree to at all.

I hope that the Senator will withdraw this particular field of activities from the bill.

The Farmers Home Administration deals with many different types of direct and insured loans. It has long since departed in a clear way from its original field of activities and objectives which were to help tenant farmers buy their properties; to help small farmers enlarge their properties; and also to help farmers build their barns and silos and things of that kind; and for production loans.

If we were limited to that kind of activity now, I would have little, if any, objections, now. But I do not think the Farmers Home Administration should be turned loose to borrow from wherever it can get funds, as against this tremendous outstanding file of obligations in a dozen different fields. I would not want that authority to be granted at all without a very close and very thorough study by the people who know something about the business of this very variegated—if I may use that word—agency.

Thus, if no one having any comprehensive knowledge of the operations of this particular, important agency has been conferred with or consulted at all, I would have to object rather strenuously to the inclusion of that file of securities within those involved by this act.

Mr. HRUSKA. Madam President, will the Senator from Florida yield?

Mr. HOLLAND. I yield.

Mr. HRUSKA. Madam President, I can say that the Senator from Nebraska is not in a position of authority in the fields to which the Senator from Florida refers. I am not on the Agricultural Legislative Committee. I am a member of his very illustriously chaired Subcommittee on Agricultural Appropriations. An effort was made by the committee to get a limitation in the very field to which the Senator refers, however, and the Senator from Maine, who is the Senator in charge of the bill, has agreed to accept this limitation.

Originally subsection 4, page 5 of the bill, read as follows:

Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act.

Then comes the language which I understand is to be amended:

Any such authorization shall remain available until used.

That was what was known as the Widnall amendment and was included in the House bill at the instance of the gentleman from New Jersey. An amendment that would be accepted is this: The last two words in that second sentence would be stricken, and the following language would then be a part of the bill as amended:

Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year.

So that there is, first of all, the necessity for an authorization and it is that authorization that applies to any participation in one of these pools during that fiscal year and the following fiscal year, rather than indefinitely until it is used. To that extent, an effort has been made to build a fence and use some braking power on an otherwise unlimited use of the participation pool procedure.

Mr. HOLLAND. I appreciate the fact that the distinguished Senator from Nebraska has endeavored to bring that much of a limitation into the bill. My objection goes a good deal further than that, because we have just finished, in our subcommittee, having hearings on the request of this agency, and they are requesting greatly increased appropriations—I do not recall the exact amount now, but it is a large increase, including large increases for these new fields—for supplying small water plants to folks who are not farmers at all but merely happen to have their home or business either in the country or in towns of not more than 5,500 population.

Their field of operations is simply immense—almost unlimited—and to say that they can pyramid or pile up this kind of fund in the way intended by the pending bill, as I understand it, is something of which I could not approve at all.

If it were limited, as I say, to those loans which have to do with the original purpose of the Farmers Home Administration, which were excellent and which I have always strongly supported and helped to liberalize greatly through the years, as those members who have served on various committees assigned to it know.

I would feel kindly disposed toward inclusion of the Farmers Home Administration, provided there were written into the bill the limitation suggested by the Senator from Nebraska which made congressional control complete and continuous; but to say that their whole field of securities can be hypothecated and that they can take that money and build up this tremendous field which they have made possible by, I think, an injudicious act of Congress, I could not give consent to that.

I would have to ask that the bill go over until tomorrow morning to give me an opportunity to present in some detail

my feelings on the question of including the Farmers Home Administration within the scope of the bill.

Mr. HRUSKA. Madam President, will the Senator from Florida yield?

Mr. HOLLAND. I yield.

Mr. HRUSKA. My citation of the proposed amendment which has been accepted or on which indication has been made for acceptance, was not to dispute or to controvert the position taken by the Senator from Florida.

I cited it only to show some effort had been made to limit somewhat, the rather broad and unlimited procedures contained in the bill as introduced. There was no intention to suggest that that amendment would in any way deal with or satisfy the remarks which the Senator from Florida has made and has made so well.

His record on the type of thing to which he refers is well known in this Congress and elsewhere; but it is not covered and it is not specifically the objective to which I referred.

Mr. HOLLAND. I reiterate my strong approval of the intention of the Senator from Nebraska and the coverage of his amendment. I call attention to the fact that it does not really go to the scope of my objection, which is another point. We have recently embarked on new programs, which are on trial, and here in the very beginning of them we are asked to expand them immeasurably in the Appropriations Committee, and we are expanding them in the field of coverage and in the legislative field. Perhaps that is wise, but, on top of that, to say that we can pile up these securities and, ad lib, pyramid them, as anyone may wish to do, is something different.

Mr. MUSKIE. Madam President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. MUSKIE. This bill does not, as the Senator said in his last sentence, permit anyone, ad lib, to take the securities and pyramid them as much as might be wished.

On the point of who was consulted in connection with this bill, I shall be very glad to give the Senator such information as I have. There are some 51 agencies or programs listed as direct loan programs. The administration undertook to contact those which might be involved in those programs or those who might be concerned or interested in the legislation with respect to the FHA program and the Farmers Home Administration. Both the Treasury and the Budget Bureau contacted the chairman of the Agriculture and Forestry Committee, the Senator from Louisiana [Mr. ELLENDER], and discussed it with him. Presumably they received no objection.

In addition, the Bureau of the Budget has written a letter, which may be of interest to the Senator, to Hon. W. R. POAGE, dated May 2, 1966, which reads:

DEAR MR. POAGE: I understand that you are concerned about the manner in which the insured loan programs of the Farmers Home Administration are to be treated under the Participation Sales Act of 1966 (H.R. 14544).

The programs of the Farmers Home Administration, as authorized by the Congress, will in no way be adversely affected by any

provision of H.R. 14544, nor by any action that it is proposed to take under that bill. On the contrary, the proposed bill will make a positive contribution toward financing the credit programs of the Farmers Home Administration.

The agency will continue to operate both the agricultural credit insurance program and the rural housing insurance program as in the past. When the paper generated in these programs can be sold to the private market on favorable terms, this will continue to be done, as it has been done in the past.

May I say, parenthetically, as could be continued to be done without passage of this bill, with reference to \$1.9 billion of direct loans. The approximately \$2 billion of loans could be sold in this way without passage of the proposed legislation before us.

To continue with the letter:

When the Farmers Home Administration is not able to place its paper directly on terms comparable to those on the participation certificates issued by the Federal National Mortgage Association, then Farmers Home will pool its loans and arrange for FNMA to sell certificates of participation in that pool.

If it should become possible later to sell the loans in the pool directly to private investors, the bill provides a procedure by which loans can be withdrawn from participation pools and a corresponding amount of participation certificates retired by purchase in the market.

May I say, in addition, that in the bill as introduced in the Senate, S. 3283, which is before us, positive control is given to the Appropriations Committees of both Houses, requiring specific authorization of the total principal amount of certificates of participation which can be issued in behalf of any agency. That is a specific authorization that is required in an appropriation act.

Those are safeguards in the legislation. This is the impact upon the Farmers Home Administration program, as described by the Director of the Bureau of the Budget to Representative POAGE.

As I have said, this legislation was discussed by the representatives of the Treasury and the Bureau of the Budget with the distinguished Senator from Louisiana [Mr. ELLENDER], chairman of the Agriculture and Forestry Committee of the Senate.

Mr. HOLLAND. I thank the Senator for that statement.

I am looking now at page 18 of the report. I see, as I am not surprised to see, that there is no division made at all in listing the securities held by the Farmers Home Administration between those directly involved with their very sound original purposes and their recently, newly authorized activities, which are new and very venturesome. The table simply lists the total amount held by the Farmers Home Administration on the day the bill was prepared, I assume, in the amount of \$1,990 million. That is in direct loans. That is in notes.

As to what part of them would lie in the scope of activities that are not new, and as to what amount would lie in the scope of activities that are highly new, venturesome, and admitted to be on a kind of trial-and-error basis, I do not know. The fact is not disclosed in the listing.

I am referring to page 18 of the report, under the heading "Direct loans." That means paper for direct loans made, and the amount is \$1,999 million. This is no inconsiderable amount, considering the fact that in recent years, we have not only entered into new programs, but also have given this agency insurance power. The Farmers Home Administration program has already been granted guaranteed and insured loans in the amount of \$727 million, which would indicate that the Farmers Home Administration has not been at a loss for ways in which to make good loans. It should not be at a loss to do so, but we want Congress to have some continuing control over the new programs. This same activity is now asking for greatly expanded lending power as to where the loans can be made. This has been brought out in the course of recent hearings before the subcommittee of which I have the honor to be chairman, and of which the Senator from North Dakota [Mr. YOUNG] serves as ranking minority member.

We know this is the situation. My feeling is it is unwise to include approximately \$2 billion of securities now already made within the scope of the bill.

I hope the Senator will be willing to do one of two things: either to remove this particular agency from the list of those included—he has apparently omitted 40 agencies already—or else let this matter go over until tomorrow morning, so I can show the Senate some of the facts and figures relative to the Farmers Home Administration.

Mr. YOUNG of North Dakota. Madam President, will the Senator yield?

Mr. HOLLAND. In closing, if anybody has been kind to any agency, it has been the Farmers Home Administration. They were brought into numerous new fields, such as housing for the elderly, increased housing for rural people, whether they were farmers or not; and financing all activities, bringing recreational activities in the country areas, and these that I mentioned a while ago, putting in water plants and similar systems in connection with activities that have no relationship whatever to agriculture, but simply happen to be either in the country or towns up to 5,500 in population.

Mr. YOUNG of North Dakota. Madam President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. YOUNG of North Dakota. This would include housing in all towns and cities up to 5,500 population. It would include direct loans and insured loans. It seems to me that this is going a long way in the field of agriculture.

When we only represent 7 percent of our total population, I suppose we do not count any more, especially in a day when agriculture is condemned by top people in the administration for providing food and fiber at prices as low or lower than we did 20 years ago. This at a time when the costs of farm operations have increased sharply year after year with no end in sight.

Mr. HOLLAND. I thank the distinguished Senator from North Dakota.

I have spoken unduly long on this matter but I feel keenly about it.

I have supported very strongly the Farmers Home Administration and I remember other Senators have also on this floor. We have liberalized three times under my chairmanship the activities of this program. It is well recognized we have tried to help legitimate country people in many ways.

I did not support one or two of these latest ventures because I thought they were getting so far away from any relation to agriculture or agricultural activities. But I have supported everything else in the scope of the activities of this committee. I have supported it year after year and our committee recommended that we increase the figures recommended in the other body so that they could reach other people.

But when it comes to turning over this entire field of securities regardless of where they came from, the Senator from Florida would not want to see that done. Rather than have it done he would want it carried over until tomorrow morning so we can get more factual information as to what is involved in connection with this activity.

I thank the Senator for his courteous answers to the points that I raise.

I wish I could agree wholeheartedly with him. I might say if he limited his request to those activities of the Farmers Home Administration in the field of long tradition I would have little objection. But when he makes one request covering all of their activities, including these expanded, highly liberal, and heretofore untried fields of activity, it goes a long way from any legitimate interest of agriculture. I cannot stay with him on that at all.

I thank the Senator.

Mr. COOPER. Madam President, may I ask one question?

Mr. MUSKIE. May I respond to the Senator from Florida?

Mr. COOPER. My comment would probably take care of it.

I notice one of the amendments offered would reduce the number of agencies to six or eight.

Mr. MUSKIE. Six agencies.

Mr. COOPER. The bill would include six agencies. I ask this question.

If participation certificates were sold in the FHA or any of those agencies, could the proceeds of those participation certificates be transferred between the six agencies or would they be required to use them in the agency which issued the obligation?

Mr. MUSKIE. The proceeds would go back to the lending agency which owned the loan in the first place.

Mr. HOLLAND. I understood that was the case. That was not my point at all. My point was between the various activities carried on within the particular agencies. Apparently there is no differentiation between them. I have distinct reservations about some of the new activities carried on by the Farmers Home Administration.

We were told a few days ago that applications had been filed in connection with some of these newer activities running up to about four times the appropriation of last year. I will get these

figures in detail for tomorrow morning, if necessary.

It seems to me we are going very far afield trying to meet every need arising from some legitimate development. There are needs in towns of up to 5,500 population. I admit that. There are needs of people who want to establish a golf course or yacht club. In the case of a little community in Destin, Fla., which is sandy, but quite attractive—and where I go to fish every chance I get—there are only a few trees that can be grown in that area, much less agricultural crops. And yet that is one of the places marked for deferral of our loan to accomplish some of these highly desirable new community developments, having no relation whatever to agriculture. It is located on Choctawhatchee Bay, removed 4 or 5 miles from the mainland, where nothing but a few hardy trees could grow.

Things have gone so far afield from the original purpose of FHA. I protested them. My committees have authorized some of the enlarged activities and I stood by the committee because I thought the majority had some meaning. I know every member of the committee—because I talked to them sooner or later—had misgivings about these new programs.

One of the things proposed was putting in a water system in a community for elderly people. This has no more relationship to agriculture than the Senate does to the production of wheat in the State of North Dakota, which is so ably represented by the distinguished Senator from North Dakota.

And yet, they were going in these projects and putting in facilities because those people who went in these new areas and bought lots might find it difficult to establish a basis for credit unless we take care of them.

That is the situation that prevails because of this new activity. I hope that we can limit anything we do by way of refinancing to the Farmers Home Administration.

I hope we can limit it to proven fields which benefit the farmer such as tenants, small farmers, and people who wanted to rebuild their homes, or a barn that has been burned.

I do not believe that we ought to let them refinance and refinance.

Mr. YOUNG of North Dakota. I am sure the Senator is concerned over bringing up all of these programs under the agriculture budget, which totals some \$7 billion, over one-half of it having little relationship to agriculture, and through this means safeguard the refinancing of a considerable part of its lending activities.

It looks like we are not to be consulted as to how programs are to be financed in the future.

Mr. MUSKIE. Madam President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. MUSKIE. I would be happy to answer the question of the Senator from North Dakota, if he will let me do it.

Talking about golf course loans, let me say to the Senator from Florida that under this bill as written, if passed, before any program involving golf course

loans can be financed, this legislation comes before the Senate Appropriations Committee and it cannot be implemented under this program unless the Senate Appropriations Committee specifically authorizes such a program. This is what the legislation provides.

This bill does not give anybody the right to take the securities into the open market, behind the back of Congress, and to pyramid in an unhealthy amount the authorization for the program. The Senator from Florida would have specific supervision over the financing of programs involving the golf course loans or any of the others that he does not like. That is the purpose of the amendment—to give the Senator control. A blank check is not given to anybody under the provision of this bill; none whatsoever.

I understand the concern of the Senator. The fields he mentioned are experimental fields, which are to be entered into carefully, which are to be supervised carefully by Congress, and which ought not to be expanded undesirably or unwisely.

I agree with the Senator on this point. But the bill gives the Senator that control. The administration cannot pool a single golf course loan for participation sales without the specific authorization and the specific legislation approved by the Agriculture Committees of both Houses of Congress.

Mr. HOLLAND. I believe that this type of legislation ought to be considered by the committees that are well acquainted with the subject.

When the Farmers Home Administration loan was set up with a revolving fund, they came before our committee. We considered the proposal very carefully, and we gave that administration the right, under specific limitations, to set up the fund. Perhaps it was unwise, but we set it up, it is working, and I believe it is working reasonably well. But to have this kind of proposal for hypothecating securities from every source of activity, to bring in that money, and then to use it again in something I do not see at all.

I hope the Senator from Maine, through the action of one committee, will not attempt to override or bypass or ignore the jurisdiction of another group of committees.

I do not have the honor to be a member of the Committee on Banking and Currency, but I do have the honor and responsibility to be a member of the Committee on Agriculture and Forestry, the legislative committee. I am the second-ranking member of that committee and the chairman of its most important subcommittee. I have the honor of being a member of the Committee on Appropriations and of being chairman of the subcommittee that deals with agriculture and related appropriations.

I am sure that every Senator serving on those two committees will bear out my statement that I have been highly friendly to the Farmers Home Administration in almost every particular and have built it up very largely—perhaps too largely—from the small basis on which it operated at the time that I came into these two positions of responsibility.

I think it is a wrong approach to this situation to allow a committee which has no knowledge at all of the methods of operation of an agency, with all its far-flung branches, responsibilities, and fields of action, to make the determination with reference to the hypothecation of all its paper and move ahead with its business in an unrestrained way. We should have an opportunity to examine the proposed legislation and to examine the testimony that we have just completed taking, to see just what is being requested now. We largely increased their insurance power just last year.

Mr. MUSKIE. The proposed legislation does not affect that.

Mr. HOLLAND. It does not affect it, but the reason I make that statement is that there is a very large field to service. Demands are made on them. Congress set up their revolving fund, and they have that to draw upon. We have increased their appropriation in every respect but one or two, with my full consent, approval, and recommendation.

But to pass the proposed legislation, without knowledge on the part of anyone who is familiar with this operation and the way in which the agency serves so many different activities—some of them having no relation whatsoever to agriculture—I believe is wrong. When I compare it with other activities that are listed here, I see a great basis for difference.

Mr. MUSKIE. Madam President, will the Senator yield?

The PRESIDING OFFICER (Mrs. NEUBERGER in the chair). Does the Senator from Florida yield to the Senator from Maine?

Mr. HOLLAND. I am glad to yield.

Mr. MUSKIE. The Senator has made his point, and has made it clearly, as to anything that would be done, or any action that would be taken, under the bill if enacted.

The specific limits which, as I understand, apply to all types of Farmers Home Administration loans would be absolute limits which could not be enlarged upon by the bill, nor could the administration recommend its enlargement. The limits are established by the committee and by Congress and cannot be expanded. All that can be loaned in the programs which concern the Senator from Florida are the specific amounts authorized by Congress on legislation introduced into Congress and referred to the Senator's committee, wholly independent of this action.

It is apparent that I have failed to explain the bill as clearly as it should be explained. All I can say in summing up my response to the Senator from Florida is that the fears he has expressed—and I certainly sympathize with the reasons that prompted him to express them—are in no way supported by anything that is in the bill, as I understand it, and I say that to him in all honesty.

Mr. WILLIAMS of Delaware. Madam President, will the Senator yield?

Mr. MUSKIE. I understand the concern of the Senator from Florida that all bills that affect his committee do not necessarily come to him. I see proposed legislation all the time that goes to other committees of the Senate and in

which committees of which I am a member have some interest. Fifty-one programs are included in this bill. Is the Senator suggesting that committees having jurisdiction over each of those programs should separately conduct hearings on legislation of this kind before the Senate can act?

The administrative agencies have taken every step possible, well in advance, to inform Senators with special interests about the provisions of the bill.

The safeguards are here. The Senator from Florida ought to be reassured by the safeguards that are here. This matter is in the palm of his hand, as a member of the Committee on Agriculture and Forestry.

There is nothing I could do, if the bill is passed, that would divert any of these programs from the attention of the Senator from Florida. There is nothing in this proposed legislation that would give the President such power. The Senator from Florida would have the first look and the last look at legislation that would be proposed to implement this authorization, if it is enacted.

Five amendments are pending before us en bloc. These amendments would not affect the question proposed by the Senator from Florida. The Senator from Delaware wishes to ask some questions about the amendments.

If we could dispose of the five amendments and the discussion in which the Senator from Delaware wants to engage, perhaps by the time we are through with that the Senator from Florida in one way or the other might have received enough information so that he would be reassured as to the point he has raised.

Would it meet with the approval of the Senator from Florida if we were to turn now to a discussion of the five amendments so that I might engage in a discussion with the Senator from Delaware and perhaps dispose of the amendments?

Mr. HOLLAND. Madam President, I am willing to turn to any business which the distinguished Senator in charge of the bill wishes to bring up. However, I shall strenuously object to any vote on the bill tonight. I serve notice of that because I do not understand at all that it would encompass the limited field that the distinguished Senator believes. I do not understand that this has been referred to people who know about the Farmers Home Administration. If it had been referred to anybody, it should have reached me, as one. I am not hurt by the fact that I was not reached. Others could have been reached on the matter. However, apparently it has not been referred to anybody, either on the majority or minority side, on the Senate subcommittee that handles agricultural appropriations.

Madam President, to make my point abundantly clear—and I am afraid that my distinguished friend has missed my point, instead of my missing his—there are several agencies listed here which we would need to include within the purview of the bill, which do a simple business compared to that done by the Farmers Home Administration. For example, there is the Veterans' Administra-

tion, which makes housing loans and other types of loans. However, the loans are all to veterans and are all within a very circumscribed field, whereas the Farmers Home Administration is not proscribed in its lending to agricultural people or objectives at all. It has a very broad field of operations. Some of its operations are frankly on an experimental basis now, as has already been stated by my distinguished friend, the Senator from Maine.

While the Senator from Florida is perfectly willing to proceed with the matter and go ahead in any manner suggested or directed by the Senator in charge of the bill—who is amply able to say where he wishes the discussion to go—the Senator from Florida would still oppose any action on the bill until he has had a chance to look further into the matter.

I hope that no move will be made to go further than to make a statement on it. Madam President, I yield the floor.

Mr. MUSKIE. Madam President, I state to the Senator from Florida that it is my intent to undertake to get a vote on the five amendments which are now pending, which vote I expect to be a voice vote, unless the Senator objects, after we have completed our discussion. It will not be a vote on final passage. It will be a vote on the five amendments.

Mr. HOLLAND. Madam President, I reserve the right to ask for a live quorum when we have had a discussion on the first amendment.

Mr. WILLIAMS of Delaware. Madam President, will the Senator yield?

Mr. MUSKIE. I yield.

Mr. WILLIAMS of Delaware. Madam President, I think I understand what the amendments would accomplish, but I want to get it clear in the RECORD.

The bill, as reported by the committee, provided for the authority to sell approximately \$33 billion worth of securities. It is my understanding that the amendments now being offered would eliminate from the bill the following programs, and I should like to enumerate them if the Senator will follow me and see if I am correct. Commodity Credit Corporation under the bill has \$2,115 million of securities which could be sold. That amount would be eliminated if the amendments are agreed to.

Mr. MUSKIE. The Senator is correct.

Mr. WILLIAMS of Delaware. REA has \$4,072 million in securities which could be sold under the pending bill. However, agreement to the amendments would eliminate those.

Mr. MUSKIE. The Senator is correct.

Mr. WILLIAMS of Delaware. Under the State Department, AID, there is an item of \$8,907 million worth of securities that could be sold under the authority of the bill. Agreement to these amendments would eliminate that authority.

Mr. MUSKIE. The Senator is correct.

Mr. WILLIAMS of Delaware. There is an item under Treasury Department, "Foreign loans," \$3,763 million, which includes the British war debt and others. Do I understand that agreement to the amendments would eliminate those from being sold?

Mr. MUSKIE. The Senator is correct.

Mr. WILLIAMS of Delaware. College

housing has listed under the bill \$1,927 million in notes. Could these be sold if these amendments are adopted? Would that amount be eliminated by agreement to these amendments?

Mr. MUSKIE. The college housing loan is \$2,170 million.

Mr. WILLIAMS of Delaware. I have it listed as \$1,927 million.

Mr. BENNETT. The Senator from Maine gave the Senator from Utah a listing of loans under HEW.

Mr. MUSKIE. College housing is under HUD.

Mr. BENNETT. Is it Federal National Mortgage Association, or is it HUD, including FNMA?

Mr. MUSKIE. It is this list here which I shall have printed in the RECORD later.

Mr. WILLIAMS of Delaware. Do I understand that college housing would not be eliminated by agreement to these amendments?

Mr. MUSKIE. That would be included under the program. Would it be helpful if I were to read the loans included in the amendment, or would the Senator prefer to proceed in his own way?

Mr. WILLIAMS of Delaware. I am trying to cover this list. The Department of Commerce has two items, \$126 million and \$109 million. The Defense Department has \$79 million listed. Do I understand correctly that all three of those items would be eliminated?

Mr. MUSKIE. The Senator is correct.

Mr. WILLIAMS of Delaware. Would the \$139 million in loans to District of Columbia be eliminated?

Mr. MUSKIE. The Senator is correct.

Mr. WILLIAMS of Delaware. I shall now recapitulate these items to be eliminated from the bill. That is \$2,115 million, Commodity Credit Corporation; \$4,072 million, REA; \$8,997 million, AID, the State Department; \$3,763 million, Foreign Loans, under Treasury Department; \$126 million and \$109 million, under the Department of Commerce; \$79 million under the Defense Department; and \$139 million under loans to District of Columbia. Would all of those amounts be eliminated if the amendments were agreed to?

Mr. MUSKIE. The Senator is correct. I think we have mutually identified the programs that the Senator is discussing, and, to the best of my knowledge, they would be eliminated.

I believe it would be helpful to list those programs that are covered.

Mr. WILLIAMS of Delaware. That would be of assistance. There were a few others such as the OEO, \$17 million, and other miscellaneous items that I did not enumerate, all of which will be eliminated. However, it is my understanding that the total is approximately \$21,500 million to \$22 billion that would be eliminated by agreement to these amendments, and that would leave a little less than \$11 billion in the bill if the amendment were agreed to. Am I correct on that point?

Mr. MUSKIE. The Senator is correct.

Madam President, I ask unanimous consent that there be printed at this

point in the RECORD a tabulation of the loans and other financial assets owned by Federal agencies which would be covered by the bill if amended by the pending amendment.

There being no objection, the tabulation was ordered to be printed in the RECORD, as follows:

Outstanding loans and other financial assets owned by Federal agencies for which participation sales would be authorized by sec. 2 of S. 3283—Estimates as of June 30, 1966

[In millions of dollars]

Agency and program:

Department of Agriculture: Farmers Home Administration.....	2,054
Department of Health, Education, and Welfare: Office of Education—Academic facility loans.....	66
Department of Housing and Urban Development: Federal National Mortgage Association.....	1,427
Federal Housing Administration.....	490
College housing loans.....	2,170
Public facility loans.....	206
Public housing loans.....	159
Housing for elderly or handicapped loans.....	151
Urban renewal loans.....	214
Public works planning advances.....	263
Veterans' Administration:	
Direct loans.....	498
Vendee loans.....	370
Small Business Administration.....	1,072
Export-Import Bank of Washington.....	2,091
Total.....	10,971

¹Limited future sales or private refinancing of some of these loans may prove feasible (but will probably require (a) larger discounts or supplementary payments than previously planned, (b) removal of statutory prohibitions on sales, or (c) volume sufficient to warrant sales effort).

²No feasible method of making sales of these advances is now apparent (because repayment is contingent on actual construction of the project).

Mr. WILLIAMS of Delaware. I thank the Senator. I think our tabulation is in agreement. I had not mentioned Department of the Interior reclamation loans of \$90 million, which were eliminated. I merely wished to get the record straight, so that we would understand just what we have taken out of the bill and what we have left in.

To summarize it again, by accepting these amendments we will have reduced the total authority under this bill to sell Government assets from about \$33 billion to between \$10½ billion and \$11 billion.

I thank the Senator from Maine for his cooperation. This is a major step in the right direction. I personally regret we cannot go further, because I still think this is a bad principle in financing. It is far more expensive to the taxpayer and does not give the American people the true picture as to the exact deficit; because, to the extent that even this \$10 billion is sold, it will have the effect of reducing the national debt by that much, and it will also have the effect of reducing the reported expenditures. This is misleading the taxpayers as to the true expenditures.

For those reasons, I shall not support final passage of the bill. As I stated before, I opposed this legislation in prin-

ciple when it was first proposed in 1959, and I oppose it today for the same reason. What is greatly needed in this country is more truth in Government, giving the American people the real truth as to the cost of their Government's operations.

I will not be a party of such deception as this bill proposes.

However, we have made progress by eliminating at least two-thirds of the original intended coverage of the bill; and for his cooperation in achieving that much, I again thank the Senator from Maine.

In this connection, Madam President, I ask unanimous consent that there be printed at this point in the RECORD an article appearing in the Washington Star, describing the recent sale of FNMA offerings, entitled "Record Interest Set for FNMA Offering," which points up rather dramatically the additional interest which this type financing will cost.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

RECORD INTEREST SET FOR FNMA OFFERING

Federal National Mortgage Association today offered \$250 million of 14-month, 5.3-percent secondary market operations debentures at 99½¢ to yield 5.38 percent, highest yield in FNMA's history.

The issue will be dated March 10 and mature on May 10, 1967, and will be issued in coupon form only, in denominations of \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000.

Proceeds will be used to redeem \$107,850,000 of 3½-year, 3.75-percent debentures maturing March 10, 1966, and to repay borrowings from the Treasury for secondary market operations.

The yield on today's offering is the highest borrowing cost in FNMA's history. The previous high of 5.35 percent was set in December 1959. The agency marketed \$150 million of 1-year, 5-percent secondary market operations debentures last January 25.

Mr. WILLIAMS of Delaware. I also ask unanimous consent to have printed in the RECORD at this point an article appearing in the Washington Star of May 2, 1966, written by Mr. Eliot Janeway, entitled "Johnson Resourceful in Tax Alternative."

There being no objection, the article was ordered to be printed in the RECORD, as follows:

JOHNSON RESOURCEFUL IN TAX ALTERNATIVE
(By Eliot Janeway)

NEW YORK.—Whatever President Johnson's critics may fault him for they can't deny that he is resourceful. Certainly, the gimmick he's relying on as an alternative to higher taxes is an artful one. It calls for the sale of Government assets to private investors.

What puts the authentic L.B.J. stamp on this maneuver is that it gets the President off the horns of the trilemma confronting him. Horn No. 1 is fiscal: the rising cost of the Vietnam war has run the Government out of money, and it needs more than even the boom is bringing in at current tax rates.

Horn No. 2 is political. The rising cost of living and of doing business has alerted consensus-taking politicians to the danger of adding the higher cost of Government to the burden of inflation-pinched taxpayers. All hands agree, for example, that Johnson's political losses from plumping for emergency war taxes would erase most of his winnings from civil rights and related victories. The political answer to the fiscal question comes

through loud and clear: If the administration needs money for Vietnam, any way to raise it is smarter and safer than by emergency taxes.

BORROWING IS PROHIBITIVE

Horn No. 3 is prestigious: The rising cost of money has made borrowing prohibitive for everybody—including even the Government. To finance the war by borrowing would therefore be bad business, but it would also be bad public relations.

For Johnson has been building his image of prudent progressivism by pointing with pride to his modest budgetary deficits and by contrasting them with the Eisenhower and Kennedy deficits, which mushroomed into \$12-billion failures of political finance. Neither the Eisenhower image nor the Kennedy image led the public to expect business management from either personality, and the temper of the times did not particularly require it.

But the public does expect Johnson to pass the pragmatic test and so does the emergency that had developed in Vietnam. A "Johnson deficit" in wartime of the proportions of the peak peacetime Eisenhower and Kennedy deficits would look bad, and it would be bad.

NEW TRIPLE PLAY

Hence L.B.J.'s shrewd new asset-selling triple play. It will get him off the hook fiscally by flooding the treasury with a bigger cash windfall than a preliminary war tax would have brought in. It will get him off the hook politically by finding the money needed for Vietnam without taking it from the taxpayers. And it will get him off the hook prestigiously because the substitute he has hit for borrowing his selling, which means that the deficit won't go up even though billions will be raised without raising taxes.

Admittedly, financial purists will object that cash raised by the selling of assets is not bona fide income which balances expenditures and really avoids deficits. But, in terms of the practicalities of political image merchandising, L.B.J. has pulled off another one of his miracles. He can continue to point with pride to his businesslike management, and the customers won't start complaining.

NOT TO JOHNSON

At least to him, for while the administration's new asset-selling device does get Johnson out of his immediate fiscal political and prestige trilemma, it does not get the economy out of the 1966 money squeeze. On the contrary, the administration's new money-raising deal will give the screw another turn—in fact, the cruelest turn yet.

In order to make room in the liquidity-parched private sector for the billions in Government paper the administration proposes to dump on the money market, a suitable incentive will have to be provided. This means that the rate of return on Government-backed investments will have to rise again—the column believes to above 6 percent and, quite possibly, to 6½ percent, an interest-rate level which Congress would never authorize the Government to pay on new issues. A 6- to 6½-percent rate on Government issues is a peril point rate for the entire economy, beginning with the already suspect stock market.

Mr. WILLIAMS of Delaware. The Janeway article outlines very clearly the reasons why this proposal was made in the first place, and points out the danger which can result from its adoption.

Again I thank the Senator from Maine for his cooperation. We have made progress as the result of the debate of the last 2 days. I only wish we could have convinced the administration to go the whole way, and defeat the measure entirely.

Mr. MUSKIE. Madam President, I wish to touch upon the questions raised by the Senator from Florida just briefly. I say at the outset, I appreciate the constructive nature of most of the discussion this afternoon. On occasion there has been more heat than light on both sides, which is understandable when we are dealing with a controversial question; but I think there is sufficient record for Senators' consideration and enlightenment, and I am grateful for the cooperation of the Senator from Utah [Mr. BENNETT] and the Senator from Delaware [Mr. WILLIAMS].

On the point raised by the Senator from Utah, I think it will be very useful for Senators reading the RECORD tomorrow to refer to the colloquy between myself and the Senator from Utah earlier in the afternoon, when he raised the question of to what extent, if any, the proceeds of the sale of these participation certificates could be used for new loans. I shall not undertake to repeat that colloquy, which was lengthy, but it reflected the fact that we have a diversity of programs with a variety of basic statutory authority, which precludes a simple "yes" or "no" answer to that question.

But I think it is possible to give a simple "no" answer with respect to the programs of the Farmers Home Administration, because a "no" answer is applicable. As I understand those programs, there is specific ceiling, or a specific authorization each year for each program for new loans. As the Senator from Utah will recall from the colloquy earlier in the day, it is my understanding that when that is the case, the proceeds of the sales of participation certificates cannot be used to enlarge the authority granted by such specific authorizations. Does the Senator from Utah recall that to be the substance of our discussion earlier, or at least my side of it?

Mr. BENNETT. The Senator from Utah does so recall it.

Maybe we could nail it down if I asked the Senator another question. Since it is the understanding of the Senator from Maine that the proceeds of sales of participations from programs of the type that depend on annual increments of lending authority cannot be used to increase that authority, what happens to the money from those participations? Does it go into the Treasury?

Mr. MUSKIE. Yes, it does.

Mr. BENNETT. The money from sales of those participations goes directly into the Treasury, and has no further effect on the lending capacity of the agency?

Mr. MUSKIE. Yes, through repayment by the agency of its obligations to the Treasury. To the extent that there is unused lending authorization, the funds can be used to implement that authorization, but cannot be used to add to the authorization.

Mr. BENNETT. I think that may help to clarify the point.

Mr. MUSKIE. Does the Senator from Indiana have a question?

Mr. HARTKE. Madam President, if I may ask the Senator from Maine, as I understand, when these participations

are sold, instead of the money going back into the general fund for general purposes, the funds will be earmarked specifically for the agency from which the original amounts were taken into the pool. Is that correct?

Mr. MUSKIE. As a practical matter, the proceeds go to the Treasury, and they are credited to the agency.

Mr. HARTKE. Can they be used for other purposes?

Mr. MUSKIE. To the extent that they are not used by the agency legitimately and appropriately under its spending programs, for cash, and so on—the same purposes for which money is otherwise obtained from the Treasury for the agency's spending programs—they are available to the Treasury for the general cash needs of the Government, just as the proceeds of Treasury borrowing would be, the same way that postal revenues or cash from any source would be.

Mr. HARTKE. Then exactly the contrary is true; although the funds are earmarked for the agency, they can be used for any purposes whatsoever, as any other revenue going into the general fund?

Mr. MUSKIE. Not used as revenue. As cash that is available. It is available in asset form one minute, and in cash form the next minute. It is available, as cash, for general purposes.

Mr. HARTKE. The difficulty arises because there is no capital budget; I understand that. But my understanding was that the funds would be earmarked by the Treasury for the agency involved. That is not true, then; there is not even a separate account established within the fund itself?

Mr. MUSKIE. There are bookkeeping accounts between the agencies and the Treasury now, on which the proper entries would be made, as I understand it. The agency, however, has additional borrowing authority available for future use when needed.

Mr. HARTKE. Yes. There are separate accounts kept now for them.

Mr. MUSKIE. Well, the entries would be made on those separate accounts.

Mr. HARTKE. But can the funds be withdrawn from that account, under the authority of this bill?

Mr. MUSKIE. Whenever an agency needs cash to carry on its program, I assume it goes to the Treasury for that cash from its unused borrowing authority. This cash will have been commingled; it is available, the same as any other cash.

Mr. HARTKE. Of course, this is merely a bookkeeping transaction, and the whole purpose is to obviate the necessity of increasing the debt limit?

Mr. MUSKIE. I do not agree with that. If I may state it very simply—and that is the only way I can state these issues—it is this: We have here some assets, and they are assets that were charged off, when they were acquired, as though they were operating expenditures of the Government. Those budget dollars, which were not really expenditures and never will be, or at least 90 percent of them never will be really ex-

penditures of the Government, are frozen. They cannot be used, and the money cannot be spent for any other purpose.

So now the intent is to take private dollars and substitute for those budget dollars, so that we can use them. Since we have charged—and I think improperly—the initial loans against our spending or operating budget, when we recover the proceeds of such a loan, it seems to me we have a right to offset that figure, which was placed against the budget, with an offsetting receipt.

That is what it amounts to.

(At this point Mr. INOUYE took the chair as Presiding Officer.)

Mr. HARTKE. Not correspondingly listing, though, an increase in the national debt as a result of selling these participations.

Mr. MUSKIE. Not now, when we sell this loan paper directly, which we have authority to do and which we have been doing for over a decade.

Mr. HARTKE. I understand.

Mr. MUSKIE. When we sell these loans directly and get the proceeds of them, this reduces our borrowing requirements.

Mr. HARTKE. Let us come back to this point: The truth is, if we did not sell these items, we would have to do one of two things; namely, either tax the people in order to raise additional funds, or borrow funds, or borrow the money to make a direct dollar-for-dollar transaction, so far as the public is concerned.

Mr. MUSKIE. The Senator poses a question as though, somehow, this was an alternative to those two.

Mr. HARTKE. I think there is more to it than that.

Mr. MUSKIE. There must be an alternative, a proper transaction to recover for which the dollars have been tied up.

Mr. HARTKE. But if we did not take this alternative, we would either have to increase taxes or increase the deficit, dollar for dollar.

Mr. MUSKIE. I would not say that necessarily follows. If we wish to follow that line of argument, I can accept that precise analysis, but I will say, if it were not done, the alternative would have to be to request borrowing from additional sources to get revenue. But to say, dollar for dollar, it would be exactly the same, I am not prepared to accept that conclusion.

Mr. HARTKE. It seems more expensive, because we pay a premium—

Mr. MUSKIE. There is another alternative which is more expensive, and that is direct sales of assets, which we have authority to do without legislation. That is more expensive.

Mr. HARTKE. The point is, if we move in this fashion, we are bound by the 4¼ percent interest limitation.

Mr. MUSKIE. We can borrow in the short-term market, if we wish to pay interest rates.

Mr. HARTKE. I understand.

Mr. MUSKIE. We are talking about alternatives available to us under existing law.

Mr. HARTKE. This is an expensive alternative.

Mr. MUSKIE. It depends on what we call expensive. There has been considerable discussion in the last 2 days of what the spread is. If we are talking about long-term Treasury borrowings, which we cannot make—under existing circumstances—in law, then we are limited to short-term Treasury borrowings. Thus, we are comparing the results of short-term Treasury borrowings and long-term maturities on participation certificates which may very well be less expensive than Treasury borrowings.

Mr. HARTKE. I believe that perhaps the Senator from Maine is right, for the reason that the Treasury has boxed itself into this position. That is why I intend to support the bill, because it is the only alternative to getting out of a bad situation.

Last week, the Federal Reserve System stated that money is as tight as it has ever been. This is reflected in the current newscasts coming over the ticker this afternoon. I have seen three items within the spread of about five situations here. One of them is the announcement by General Motors that they are cutting back drastically in the production of their automobiles. The second is that there is a renewed wave of selling which clobbered the stock market, and the third is that FNMA stated tonight that it purchased a record \$797.8 million in mortgages during the first 3 months of this year because of the tight money market.

Mr. President, this tight money market which has been instituted by the Federal Reserve Board under William McChesney Martin has gotten the Treasury Department into a tight squeeze. I am interested in helping out. However, the real answer is to go back to the Federal Reserve and start talking sense to them down there. When that has been done, perhaps we can start going in the right direction. The difficulty is, these are very bad signs. I do not know what caused them. I am not going to say that they are the result of tight money. The items on the ticker, Nos. 153, 154, and 155, to which I have referred, may be some of the things to which the administration was referring as some of the horizons which were not too bright.

Let me assure the Senator from Maine that I intend to support the measure, but I believe that the policies being pursued at the present time can only aggravate the situation.

Let me ask one more question of the Senator from Maine: When they attempted to sell the export-import issues, approximately \$750 million, and the subscription was for less than half of that amount, is that true?

Mr. MUSKIE. I do not have the answer. I would have to get that.

Mr. HARTKE. Let me say that it is true, that I know it is true.

Mr. MUSKIE. Then the Senator should not have asked me that question.

Mr. HARTKE. The point is, I wanted to state that as a premise for my question.

Mr. MUSKIE. I assure the Senator, I am not trying to embarrass him.

Mr. HARTKE. Of course not. I am not trying to embarrass the Senator from Maine, either. I know the answer to the question, which I asked in the Finance Committee.

Admitting that this is true, and I have the record in my hand, if the Senator from Maine would like me to read it, the point is that to the extent they were not sold, the Secretary of the Treasury indicated it would increase the deficit of the United States to that amount, to the extent of \$350 million. Is this true? Let me go ahead and say that it is true, and I will answer the question. The point is, if we do not wish to sell the \$4.7 billion, where are we going to get the money, then? Does the Senator have any suggestions on that?

Perhaps that question should be left unanswered. I think probably that is the best way to leave it.

Mr. MUSKIE. I thank the Senator from Indiana.

Mr. HARTKE. Mr. President, I ask unanimous consent to have printed in the RECORD the three items, Nos. 153, 154, and 155, which came over the Senate's ticker this afternoon.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[No. 153]

DETROIT.—There had been previous slowdowns or shutdowns in various GM units, but these were due to things like supplier strikes or a railroad strike.

Disclosure that three GM plants—Chevrolet in Ypsilanti, Mich., and Van Nuys, Calif., and a GM assembly plant in South Gate, Calif.—worked only 3 days this week, while an Atlanta, Ga., plant was on 4 days, came as a surprise to the rest of the industry.

American Motors has been plagued by such shutdowns in recent months but it worked a regular 5-day week this time while GM was having difficulties. Chrysler was on a 5-day week and Ford had 10 of its 17 assembly plants listed for overtime work this Saturday.

GM's cutback announcement came shortly after reports of the four auto companies showed April sales totaled 761,606 cars, off the 799,102 April pace of a year ago.

Sales for the opening 4 months of the year were 2,963,292 cars, again behind the 2,991,609 units sold in the comparable 4 months last year.

[No. 154]

NEW YORK.—A renewed wave of selling clobbered the stock market late today, knocking it down to its lowest level of the day at the close.

A heavy wave of selling was triggered initially by news of General Motors production cutbacks. That, combined with confusing statements from Washington about the possibility of a tax boost, were cited as factors in the decline.

The day began with a moderate rally but the GM news reversed this.

[No. 155]

WASHINGTON.—The Federal National Mortgage Association said tonight it purchased a record \$797.8 million in mortgages during the first 3 months of this year because of the tight money market.

Value of the 61,739 mortgages was almost double the previous record set during the last 3 months of 1965, FNMA reported.

First quarter purchases of mortgages guaranteed by the Veterans' Administration or insured by the Federal Housing Administration compared with the sale of only six mortgages, valued at \$62,000, FNMA said.

During the October-December quarter of last year, Fannie Mae bought 34,271 mortgages for \$405.4 million.

In its secondary market operations, FNMA buys FHA and VA mortgages when mortgage money is scarce on the private market. The money Fannie Mae pays private lenders for the mortgages is in turn used by the mortgage bankers for new loans.

Fannie Mae sells mortgages to private lenders when mortgage money is plentiful.

The PRESIDING OFFICER. The question is on agreeing en bloc to the amendments of the Senator from Maine [Mr. MUSKIE].

The amendments were agreed to en bloc.

Mr. MUSKIE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll. The legislative clerk proceeded to call the roll.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the order for the call of the quorum be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HRUSKA. Mr. President, I rise in opposition to the proposed Participation Sales Act of 1966.

S. 3283 would establish a new means of refinancing Federal spending which will be costly—which will deceive the American taxpayer as to the true status of the financial condition of the Government, and which will have far-reaching implications for the future conduct of governmental activities.

The purported objective of this legislation is to promote private financing of governmental credit needs and to replace public credit with private funds. The bill would authorize participating departments and agencies who presently have direct loan programs to enter into trust agreements with the Federal National Mortgage Association whereby FNMA would sell participation certificates based on a pool of Federal loans. These certificates would be sold to the investing public at prevailing market interest rates.

HIGHER INTEREST RATES

Mr. President, there are numerous reasons why this bill should not be enacted.

First is the fact, openly conceded by the measure's proponents, that this bill would mean increased cost for Government borrowings. The following table appears on page 20 of House Report No. 1448. Mr. President, I ask unanimous consent that this table be printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Comparison of yields on FNMA participations and nearest comparable U.S. Government securities as of Mar. 16, 1966

FNMA participation certificates			U.S. securities, nearest comparable issue			Excess yield of FNMA certificates (percent)
Coupon rate	Maturity	Percent yield	Coupon rate	Maturity	Percent yield	
5.40	1967	5.40	3 $\frac{5}{8}$	1967	4.83	0.57
5.45	1968	5.45	3 $\frac{5}{8}$	1968	4.90	.55
5.50	1969	5.50	4	1969	4.87	.58
5.50	1970	5.50	4	1970	4.92	.58
5.50	1971	5.50	4	1971	4.94	.56
5.50	1972	5.50	4	1972	4.99	.51
5.50	1973	5.50	4	1973	5.03	.47
5.50	1974	5.50	4 $\frac{1}{8}$	1974	5.05	.45
5.50	1975	5.50	4 $\frac{1}{4}$	1974	5.02	.48
5.45	1976	5.45	4 $\frac{1}{4}$	1974	5.02	.43
5.45	1977	5.45	4 $\frac{1}{4}$	1974	5.02	.43
5.40	1978	5.40	4	1980	4.70	.70
5.35	1979	5.35	4	1980	4.70	.65
5.30	1980	5.30	4	1980	4.70	.60
5.25	1981	5.25	4	1980	4.70	.55

Mr. HRUSKA. Mr. President, this table indicates very clearly an interest rate differential average one-half of 1 percent over current Treasury borrowings.

This differential will mean added and unnecessary borrowing costs amounting to \$5 million per year for each billion dollars of participations sold.

BUSTED BUDGETS CAN BE BALANCED

S. 3283 would establish a new system of subsidized financing, the main effect of which will be an effort to turn deficits into surpluses.

For example, let us consider the pending budget for fiscal year 1967. The administrative budget for fiscal 1966 contemplates a budget deficit of \$1.8 billion. However, to achieve this low figure the administration proposes to sell \$4.7 billion of its financial assets. Over \$4 billion of this so-called sale is to be achieved by participation sales. The proceeds, since they will be reported as "income" though in reality a liquidation of capital assets, will then be used to offset expenditures that otherwise would have to appear in the budget. This means that, if these sales are not made, the budget deficit would be \$6 billion in place of \$1.8 billion. By using the scheme contemplated in this bill, the administration could easily have wiped out its \$1.8 billion deficit and could have come to Congress indicating that we would have a surplus rather than a deficit. All that would be necessary was to have a projection of additional participation sales amounting to \$1.8 billion.

In other words, we are merely authorizing bookkeeping juggling and manipulation to make a mockery of the administrative budget.

DECEIVING THE PUBLIC ON THE DEBT

In the same fashion in which budget expenditures can be juggled, the same technique can be applied to the Federal debt limit.

To be sure, the Government would still have the indebtedness represented by the participation certificates of FNMA. However, these certificates are outside of the Federal debt limit. Thus, by using the unlimited authority of FNMA to draw on the U.S. Treasury to finance these borrowings, significant portions of the Federal debt can be refinanced and taken outside of the Federal debt limitation.

INCREASED FEDERAL SPENDING

With deficits being converted to surplus and pressures being taken off Government spending to be within current debt limitations, the way would be cleared for more and more Federal spending in all areas to take up the slack left by this phony financing. There would be an open invitation to Congress to support spending programs which would otherwise be eliminated or substantially reduced.

THE REPUBLICANS DID IT—WHY CAN'T WE?

Mr. President, proponents of this bill have argued that the proposal here is nothing more than an extension of practices inaugurated by the Eisenhower administration. It is true that in fiscal year 1960 FNMA did exchange \$311 million of its low interest mortgages for \$316 million of nonmarketable Treasury investment bonds owned by the public, but this was a straightforward action in which the mortgages were sold on a competitive bid basis and paid for by bonds held by investors. The bonds acquired by FNMA were then turned over to the Treasury and canceled. Treasury then reduced FNMA's indebtedness by a like amount. There was no circumvention of the budget in this transaction. Incidentally, in the Senate the Democratic majority passed a resolution which expressed its disapproval of the plan.

Proponents of this measure also cite a House Ways and Means minority report of 1963 and indicate that the Republican signatories of that report endorsed this kind of financing. However, there was a significant and very vital difference. The comments in that report were directed at actual sales of marketable assets. No comments were directed to the so-called participation sales. The House Republicans did not endorse this program then and they are vigorously opposed to the program now.

HASTY ACTION

Mr. President, this bill is being ramrodded through Congress with only the scantiest of consideration being given to it. One day of hearings was held in the House committee. Only two administration witnesses were heard. No representatives of the commercial financial world were heard nor were their views solicited. Essentially the same tactic was followed on the Senate side. A Sen-

ate committee hearing was held on April 26 in which two administration witnesses were heard. On the following day, S. 3283, the subject of the hearing, was introduced. On the following day, April 28, another hearing was held in which two witnesses were heard. The only industry witness testifying in either House of Congress on the bill presented his statement with less than 1 hour's notice.

S. 3283 was ordered reported from the Senate committee on the same day. So here we have the spectacle of a bill involving billions and billions of dollars, affecting multifarious Federal lending programs, being given less consideration by Congress than most persons give to buying a used car. A total of about 3 hours of committee hearings served as foundation for reporting the bill.

Mr. President, for the reasons I have indicated, I cannot in good conscience support this measure.

Mr. HARTKE. Mr. President, today we are being asked to consider the Participation Sales Act of 1966, S. 3283. As Under Secretary of the Treasury Joseph Barr said in his testimony before the Senate Banking and Currency Committee:

This bill would provide an efficient and orderly method for liquidating financial assets held by Federal credit agencies and would help to promote private financing of Federal credit programs.

To me, this particular piece of legislation represents a major and permanent change in the method of financing the operations of the Federal Government.

And because this legislation does represent such a change, I feel there is an uncertainty as to the intent and purpose of the bill, as well as its timing and effect upon our national economy.

I can see the sale of these participations as having a twofold effect upon our national budget. The first being in the field of revenue. Beginning in fiscal 1967 some \$4.7 billion worth of participations of pooled Government loans will be sold to the private sector of the economy. This means that almost \$5 billion in revenue will be coming into the general fund of the Treasury.

At first I questioned the intended use of these funds. I waited to be sure that the funds received from the participation sales would not be used for other purposes, for example, helping to finance the war in Vietnam.

But Treasury officials have made assurances that if the Small Business Administration or the Veterans' Administration, or any of the other lending groups that are pooling their loans are successful in selling these participations, then the money received from the sales will be credited to their account in the general fund.

It is our duty to make sure that the Congress does not lose control of the expenditure of these funds. Because, after all, gentlemen, we are talking about almost \$5 billion in ready cash that could be used for any purpose. But, as I stated above, the Treasury Department assured me that these funds will be credited to

the accounts of the Small Business Administration, or the VA, or the FHA, for their use only.

The second effect the sale of these participations would have upon the budget is in the realm of bookkeeping. When you sell \$4.7 billion worth of participations in Government guaranteed loans, you immediately decrease the loan liability you carry on your books by a like amount. This means that the contingent liability side of the Federal budget will be decreased by almost \$5 billion. You have not actually lost the liability you undertook when you guaranteed these loans, but in effect you have passed that liability on the buyers of the participations in the loan pools. And, incidentally, you have also decreased any prospective deficit in the budget by a like amount.

As I understand the procedure outlined in the bill relating to the sale of the participations, the buyers of the participations will be paid back their principal and interest as the Government is paid the principal and interest on the loans in the pool.

Since these participations are not backed by the full faith and credit of the Federal Government, the private investor assumes some risk when he buys one. For this reason the participations will have to be made attractive to the private investors. How attractive I would not want to guess. All I can do is recall the statements of the Secretary of the Treasury Fowler when he appeared before the Finance Committee to testify in behalf of the Tax Adjustment Act of 1966. Our discussion centered around an attempt by the Export-Import Bank to sell some \$700 million worth of their own participations. I would like to read that portion of the testimony into the RECORD:

Senator HARTKE. Now, we have just gone through a nice experiment on that with the Export-Import Bank situation.

Secretary FOWLER. We have found the Export-Import Bank—they offered \$700 million of participation at a rate of 5½ percent to commercial banks, and a little more than half, \$360 million, was taken up by the banks.

Senator HARTKE. This was for 18 months, is that not correct?

Secretary FOWLER. Put-and-call feature at that point.

Senator HARTKE. Put-and-call feature at 18 months and the rate was 5½ percent?

Secretary FOWLER. Correct.

Senator HARTKE. Which is a substantially high rate for this type of obligation.

Secretary FOWLER. It was higher than it had been through—

Senator HARTKE. Higher than we had ever offered before, and yet the public response to that was less than half; is that not true?

Secretary FOWLER. That is right.

Senator HARTKE. Now, how do you account for that?

Secretary FOWLER. Money is tight.

Senator HARTKE. Money is tight, is it not; very tight and getting tighter?

Secretary FOWLER. Well, money is tight. Whether it is getting tighter or not is a judgment I will not make.

Senator HARTKE. Now, is money tight partially as a result of the action of the Federal Reserve Board in your opinion?

Secretary FOWLER. I think that the primary cause of the tightness of money is the greatly increased requirements for credit and the desire for credit on the part of many elements in the economy.

Senator HARTKE. Some places are rationing credit; is that not true?

Secretary FOWLER. As we both know, the policies of the Federal Reserve Board in handling the various facets of monetary policy have a very important and significant relationship to the tightness of money. Therefore, in a sense, you could say the total complex of policies of the Federal Reserve Board against the background of the very large demand for money result in what we call a tight money situation.

Senator HARTKE. Now, as a result of this offering only being partially sold, this was quite a disappointment to the Treasury, was it not really?

Secretary FOWLER. I would not characterize it as quite a disappointment. The Export-Import Bank went out trying to find a market for this paper. We were willing to sell under the terms that Mr. Linder announced. We were willing to sell and would have been pleased to sell \$700 million. We did not have the expectation that the total amount would necessarily be sold.

Senator HARTKE. Well, now, how much of this \$4.7 billion does the Treasury anticipate that it will not be able to sell?

Secretary FOWLER. I have no estimate of that as of now. This looks ahead for 18 months and I do not know what the situation in the market will be during that 18-month period.

Senator HARTKE. Now, back on this \$4.7 billion. As I understand, you said now, just to get us back where we were, at this time it is impossible to say whether or not the participation will meet the same fate as the \$700 million offering of the Export-Import Bank.

Secretary FOWLER. That is right. Although it would certainly be our expectation that we would be able to market the securities on suitable terms between now and June 30, 1967.

Senator HARTKE. Does the Secretary anticipate that they will have to be offered at a higher rate than the 5½ percent?

Secretary FOWLER. I have no anticipation along that line, one way or the other.

Senator HARTKE. Or at a shorter term?

Secretary FOWLER. I have no anticipation along that line either.

Senator HARTKE. But if you wanted to make them more attractive, that would be one—

Secretary FOWLER. One way to—

Senator HARTKE. One of two ways to approach that situation.

Secretary FOWLER. That is correct.

In keeping with the matter at hand, I note on page 43 of the hearings before the Senate Banking and Currency Committee that the largest single item making up the \$4.7 billion of participations to be sold are Export-Import Bank loans of \$975 million. The money market conditions in effect at the time of the tax hearings have not changed. In fact, they have gotten worse. And yet the Treasury Department continues to ignore these warning signs of high interest rates and continues to compound the difficulty.

So this brings up the question of how attractive the participations will have to be made in order to sell them. And also how much of an additional interest cost will have to be borne by the taxpayer. The New York Times estimated that it would cost the Government between \$30-\$44 million over the next 2 years, and the interest cost would continue to grow as more of the participations are sold.

The overall questions raised by the in-

crease in interest rates last December 6, 1965—is a separate matter—but one which should nevertheless not be ignored in this context.

But what I wanted to stress here today is that these participations will have to bear a premium interest rate to be sold. A rate far in excess of the interest being earned on the loans in the pool. In drafting the bill, the administration has attempted to cover this "interest gap" by obtaining the approval of the two Appropriations Committees for the added interest costs prior to the sale of the participations. It seems unfortunate that the Government has worked itself into a position where it has to pay literally exorbitant interest rates to sell its obligations.

And finally, what effect will these sales have upon the availability of funds in the money market? Money is the tightest since the end of the Eisenhower recession back in 1960, according to the Federal Reserve Bulletin. Rather than ease the strain upon the availability of funds in the United States, the administration seems intent upon further restriction of that supply. This is what the sale of these participations will do. We have already enacted the corporate speedup on income tax payments, and the speedup of personal income tax withholding which helped to dry up available funds. Now, on top of the already overburdened money market operations, the passage of this bill removes \$4.7 billion of available funds out of the private sector for use in the public sector.

This further constriction of the funds available to the private sector can only result in higher interest rates. It is a never ending upward spiral being encouraged by the actions of the Federal Reserve Board and the Treasury Department.

Mr. HART. Mr. President, the able Senator from Maine [Mr. MUSKIE] has developed clearly the issues drawn by the pending proposal, as now amended. The bill has my support. I believe there is value in reading the editorial in the Newark Evening News on the President's request for permanent authority to broaden private participation in the Government's multibillion loan business.

The paper points out that this "would not be an innovation in Federal finance," and adds that "sale, on a limited scale, of Government financial assets originated in the Eisenhower administration and has since been national policy."

It is the opinion of the paper that "the pool sales certainly would have an anti-inflationary affect by draining off several billions from the economy."

The editorial bears on the issue and, I ask permission of my colleagues to include the article in its entirety in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

[From the Newark (N.J.) Evening News,
Apr. 23, 1966]
U.S. LOAN POOL

President Johnson's request to Congress for permanent authority to broaden private participation in the Government's multibillion loan business would not be an inno-

vation in Federal finance. Sale, on a limited scale, of Government financial assets originated in the Eisenhower administration and has since been national policy.

The administration's purpose is to expand the sales. The legislation would authorize creation of a giant pooling of Government holdings in about 100 lending programs. Participations in the pool would be sold to individual investors, as well as financial institutions such as banks and insurance companies.

The pooled loans would include those made for a variety of purposes, among them private housing, education, college dormitories and small businesses. The device is already in use by the Veterans' Administration, Federal National Mortgage Association, and the Export-Import Bank.

Mr. Johnson's hope to sell \$4.7 billion of loans through the pools in the next fiscal year may, however, be delayed in Congress which is split on the proposal along party lines. His explanation that the sales would "permit us to conserve our budget resources by substituting private for public credit" is precisely the reason a number of congressional Republicans have attacked the plan.

They see the proposal as a bookkeeping expedient to make his budget look good. In effect, proceeds from the pool sales would show up as a reduction in Federal expenditures. Thus, instead of the \$6.5 billion deficit Republican critics now foresee for the budget, the red ink could amount to only \$1.8 billion as Mr. Johnson estimated in January.

Another major objection is the added cost to taxpayers. Presumably the pool participations will be sold at a higher rate of interest than the original loans. The most recent sale of FNMA certificates, for example, provided yields up to 5½ percent.

Republican objection to the higher interest rate is not quite according to form. In surprising contrast, is acceptance thus far of Mr. Johnson's proposal by the cheap money bloc led by Representative WRIGHT PATMAN, of Texas, chairman of the House Banking Committee.

If Mr. Johnson succeeds in keeping the deficit down by means of the pool sale, or even the simple method of reducing actual spending, he would, of course deprive the GOP of an issue in the November election. Yet whatever virtues or shortcomings his proposal may have, the pool sales certainly would have an anti-inflationary effect by draining off several billions from the economy.

Mr. MUSKIE. Mr. President, I ask unanimous consent that the amendment on page 2, just adopted, be reconsidered, so I may propose a modification.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that there be an order to offer the amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

The adoption of the amendment is reconsidered.

Mr. MUSKIE. Mr. President, I would like to modify the amendment that we adopted, on page 2, which listed the programs specifically which would be included under the provisions of the bill that has to do with Farmers Home Administration loans, to restrict them to loans for farm ownership, rural housing, and crop production.

The PRESIDING OFFICER. The clerk will report the change.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield for one question?

Mr. MUSKIE. I would be happy to yield to the Senator.

Mr. WILLIAMS of Delaware. I will state the objection.

The PRESIDING OFFICER. The modification of the amendment will be stated.

The LEGISLATIVE CLERK. In the amendment on page 2, subsection 2, following the words "Farmers Home Administration," it is proposed to delete the semicolon and insert the following: "(with respect only to loans for land acquisition, rural housing, and crop production);".

Mr. MUSKIE. I yield to the Senator from Delaware.

Mr. WILLIAMS of Delaware. Mr. President, it is my understanding that this will further restrict the authority and reduce it somewhat from the \$10.9 billion.

This is a further restriction, and, therefore, I congratulate the Senator. I hope that we can restrict it further. However, this is a step in the right direction.

Mr. MUSKIE. I thank the Senator.

Mr. HOLLAND. Mr. President, the Senator from Florida has mixed feeling about this, but he has only agreed to this amendment, so far as he is concerned.

This would restrict the hypothecation of paper in the hands of the Farmers Home Administration to that acquired by reason of direct loans only for three traditional and normal activities of the Farmers Home Administration; namely, land acquisition, crop production, and rural housing.

That leaves out the emergency loans which are approximately \$100 million right now. It leaves out soil and water loans which are small in amount now, but which the agency is trying to increase greatly in scope of activity.

It leaves out loans for recreational development. It leaves out all other, what I would call, untried experimental loans that are being made, such as housing for elderly, and other type loans which really are new and untried, or have no legitimate connection with agriculture.

Mr. HRUSKA. Mr. President, will the Senator yield?

Mr. HOLLAND. I would like to have the Senator understand two things. First, this agreement is made only for myself; and, second, I recognize the fact that this leaves three of the largest securities under the coverage of the bill.

I think there is more case for leaving those three under the bill. That is the reason why I have agreed to do it.

I wish to put a note of warning in the debate at this time. It is my belief it will be found that this class of securities will not be highly useful when it comes to hypothecation. I remind the Senate that every dime recommended by the Farmers Home Administration in its traditional activities is on a substandard loan.

In other words, if a person who wishes a loan can get it from a commercial bank he cannot borrow from Farmers Home Administration.

If he can get it from Farm Credit Administration he cannot borrow from the Farmers Home Administration. That being the case, everybody knows that their portfolio of securities is a portfolio

of substandard securities, and I think it is the least useful one of the group of securities included in the provisions of this very broad bill.

I am willing for the Farmers Home Administration to remain in the bill, provided the activities in the bill are limited to these three traditional fields of operation.

Mr. HRUSKA. Mr. President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. HRUSKA. What type loan is included in the category land acquisition?

Mr. HOLLAND. My understanding is that it would include the original Bankhead-Jones purpose loans of helping a tenant acquire his farm and later extension of that under which small farmers have been helped to enlarge their holdings to reach an economic size for production.

That is my understanding. If the Senator from Maine has a different understanding I would be happy to have him state it.

Mr. HRUSKA. Would it be for agricultural purposes as opposed to newer purposes of land acquisition?

Mr. HOLLAND. My purpose and hope was to confine it to traditional activities for agricultural purposes. I do not know if that is the word. It is limited to that. We could not get a copy of the bill.

I am willing to state for the RECORD my understanding of the amendment.

This would confine it to land acquisition. It would confine the paper to land acquisition that is within the original scope of helping the tenant to acquire his farm or helping him to enlarge his uneconomical farm. It is not for recreational use or those uses not within the original purview of the Farmers Home Administration.

Mr. HRUSKA. That description as part of the legislative history will be helpful.

Mr. HOLLAND. I can speak only for myself. If the Senator from Maine has a different point of view, he can explain it.

Mr. MUSKIE. The Senator from Florida stated my understanding of the provision. It includes farmownership loans, direct operating loans, and rural housing loans.

The PRESIDING OFFICER. The question is on agreeing to the amendment, as modified.

The amendment, as modified was agreed to.

The PRESIDING OFFICER. The bill is open to further amendment. If there be no further amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill (S. 3283) was ordered to be engrossed for a third reading.

The bill was read the third time.

Mr. DIRKSEN. Mr. President, is a rollcall now in order?

The PRESIDING OFFICER. Yes.

Mr. DIRKSEN. Have the yeas and nays been ordered?

The PRESIDING OFFICER. Yes.

LEGISLATIVE PROGRAM

Mr. DIRKSEN. Before we have the yea-and-nay vote, I would like to ask the

majority leader about the program for the remainder of the day and the remainder of the week if he can presently tell us.

Mr. MANSFIELD. With the voting on the pending measure completed, that will finish business of the Senate for today. Then we are going over until Monday, at which time we will take up various bills out of the Armed Services Committee and attend to other matters as they may arise.

Sometime next week the Atomic Energy Commission authorization will be taken up by the senior Senator from Rhode Island [Mr. PASTORE].

Mr. DIRKSEN. May I inquire about the Interior Department appropriation bill?

Mr. MANSFIELD. We hope that that bill may be ready next week, as well as the Treasury-Post Office appropriation bill, but we are not absolutely certain.

Mr. DIRKSEN. I thank the majority leader.

PARTICIPATION SALES ACT OF 1966

The Senate resumed the consideration of the bill (S. 3283) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

Mr. LAUSCHE. Mr. President, in 1959 I voted against a proposal substantially identical to the one that is before the Senate tonight. President Eisenhower sought to dispose of capital assets in order to procure liquid dollars with which to operate the Government. His program was opposed. I voted against his proposal because I thought it was unsound to sell capital assets in order to finance current operations. Today, President Johnson is asking for the same right that was embodied in the program of President Eisenhower in 1959.

I voted against the proposal of President Eisenhower, and I shall vote against the proposal of President Johnson. I disagree with the proposal that it is possible to finance current operations by selling capital assets. It is wrong in the home, it is wrong with the individual, and it is wrong with Government.

The PRESIDING OFFICER. The bill having been read the third time, the question is, shall it pass? The yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. LONG of Louisiana. I announce that the Senator from Tennessee [Mr. BASS], the Senator from Indiana [Mr. BAYH], the Senator from Virginia [Mr. BYRD], the Senator from Idaho [Mr. CHURCH], the Senator from Pennsylvania [Mr. CLARK], the Senator from Connecticut [Mr. DODD], the Senator from Mississippi [Mr. EASTLAND], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Tennessee [Mr. GORE], the Senator from Oklahoma [Mr. HARRIS], the Senator from Arizona [Mr. HAYDEN], the Senator from Massachusetts [Mr. KENNEDY], the Senator from Washington [Mr. MAGNUSON], the Senator from South Dakota [Mr. MCGOVERN], the Senator from Oregon [Mr. MORSE], the Senator

from Rhode Island [Mr. PASTORE], the Senator from Georgia [Mr. RUSSELL], the Senator from Missouri [Mr. SYMINGTON], the Senator from Alabama [Mr. SPARKMAN], and the Senator from Maryland [Mr. TYDINGS] are absent on official business.

I also announce that the Senator from New Mexico [Mr. ANDERSON], the Senator from Alaska [Mr. BARTLETT], the Senator from Maryland [Mr. BREWSTER], the Senator from North Carolina [Mr. ERVIN], the Senator from New Mexico [Mr. MONTOLYA], the Senator from Utah [Mr. MOSS], the Senator from Wisconsin [Mr. NELSON], the Senator from West Virginia [Mr. RANDOLPH], the Senator from South Carolina [Mr. RUSSELL], the Senator from Florida [Mr. SMATHERS], and the Senator from Ohio [Mr. YOUNG], are necessarily absent.

I further announce that, if present and voting, the Senator from Alaska [Mr. BARTLETT], the Senator from Indiana [Mr. BAYH], the Senator from Virginia [Mr. BYRD], the Senator from Idaho [Mr. CHURCH], the Senator from Pennsylvania [Mr. CLARK], the Senator from Connecticut [Mr. DODD], the Senator from Massachusetts [Mr. KENNEDY], the Senator from South Dakota [Mr. MCGOVERN], the Senator from New Mexico [Mr. MONTOLYA], the Senator from Oregon [Mr. MORSE], the Senator from Utah [Mr. MOSS], the Senator from Rhode Island [Mr. PASTORE], the Senator from Florida [Mr. SMATHERS], the Senator from Maryland [Mr. TYDINGS], and the Senator from Ohio [Mr. YOUNG], would each vote "yea."

On this vote the Senator from Tennessee [Mr. GORE] is paired with the Senator from Oklahoma [Mr. HARRIS]. If present and voting, the Senator from Tennessee would vote "nay" and the Senator from Oklahoma would vote "yea."

On this vote, the Senator from Maryland [Mr. BREWSTER] is paired with the Senator from North Carolina [Mr. ERVIN]. If present and voting, the Senator from Maryland would vote "yea" and the Senator from North Carolina would vote "nay."

On this vote, the Senator from West Virginia [Mr. RANDOLPH] is paired with the Senator from South Carolina [Mr. THURMOND]. If present and voting, the Senator from West Virginia would vote "yea" and the Senator from South Carolina would vote "nay."

Mr. KUCHEL. I announce that the Senator from Hawaii [Mr. FONG] is absent on official business.

The Senator from Vermont [Mr. AIKEN], the Senator from California [Mr. MURPHY], the Senator from Kansas [Mr. PEARSON], the Senator from Massachusetts [Mr. SALTONSTALL], the Senator from South Carolina [Mr. THURMOND], and the Senator from Texas [Mr. TOWER] are necessarily absent.

If present and voting, the Senator from Hawaii [Mr. FONG], the Senator from California [Mr. MURPHY], the Senator from Kansas [Mr. PEARSON], the Senator from Massachusetts [Mr. SALTONSTALL], and the Senator from Texas [Mr. TOWER] would each vote "nay."

On this vote, the Senator from South

Carolina [Mr. THURMOND] is paired with the Senator from West Virginia [Mr. RANDOLPH]. If present and voting, the Senator from South Carolina would vote "nay" and the Senator from West Virginia would vote "yea."

The result was announced—yeas 39, nays 22, as follows:

[No. 73 Leg.]

YEAS—39

Bible	Javits	Muskie
Byrd, W. Va.	Jordan, N.C.	Neuberger
Cannon	Kennedy, N.Y.	Pell
Case	Long, Mo.	Prouty
Douglas	Long, La.	Proxmire
Ellender	Mansfield	Ribicoff
Gruening	McCarthy	Robertson
Hart	McClellan	Scott
Hartke	McGee	Smith
Hill	McIntyre	Stennis
Holland	Metcalf	Talmadge
Inouye	Mondale	Williams, N.J.
Jackson	Monroney	Yarborough

NAYS—22

Allott	Dirksen	Miller
Bennett	Dominick	Morton
Boggs	Fannin	Mundt
Burdick	Hickenlooper	Simpson
Carlson	Hruska	Williams, Del.
Cooper	Jordan, Idaho	Young, N. Dak.
Cotton	Kuchel	
Curtis	Lausche	

NOT VOTING—38

Aiken	Fulbright	Pearson
Anderson	Gore	Randolph
Bartlett	Harris	Russell, S.C.
Bass	Hayden	Russell, Ga.
Bayh	Kennedy, Mass.	Saltonstall
Brewster	Magnuson	Smathers
Byrd, Va.	McGovern	Sparkman
Church	Montoya	Symington
Clark	Morse	Thurmond
Dodd	Moss	Tower
Eastland	Murphy	Tydings
Ervin	Nelson	Young, Ohio
Fong	Pastore	

So the bill (S. 3283) was passed.

Mr. MUSKIE. Mr. President, I move to reconsider the vote by which the bill was passed.

Mr. MANSFIELD. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. MANSFIELD. Mr. President, the distinguished junior Senator from Maine [Mr. MUSKIE], handled the participation sales measure with skillful and articulate advocacy of the highest order. At once vigorous and diplomatic, his presentation of the proposal assured Senate approval.

The success was characteristic. It was achieved by clear and convincing explanations of the proposal's effects, obviously broad knowledge of its various provisions, and sharp appreciation of the issues involved. But these are the capacities applied to all legislative measures handled by the distinguished Senator from Maine.

He is a Senator whose service in this body has been characterized consistently by a devotion to excellence which is unmatched. This is especially true when his great talents are devoted to the handling of legislative proposals as they come for action to the Senate floor. So today, his handling of this legislation attests amply to the high quality of the service he renders. Witnessed was a ready grasp of the complex technicalities of the measure coupled with a profound analysis of its financial consequences. Such a combination assured the success of the proposal. Such an achievement

is just one more in a long line of great contributions by the Senator from Maine.

As always, we are grateful to other Members of this body whose diligence and strong efforts were responsible to a large degree for favorable Senate action on this measure today. Outstanding was the contribution of the senior Senator from Illinois [Mr. DOUGLAS] whose faithful presence on the floor during most of the consideration of the proposal was joined frequently with his typically brilliant support to assure success. Also, the junior Senator from South Dakota [Mr. McGOVERN] added his capable efforts to obtain Senate approval. So too, the efforts of the junior Senator from Louisiana [Mr. LONG]—that knowledgeable chairman of the Committee on Finance—helped to achieve success.

But cooperation also played an important role in obtaining orderly and efficient action. To those Senators who joined to oppose the measure but who nevertheless sought not to impede its disposition, we are indebted. Commendation thus goes to the senior Senator from Utah [Mr. BENNETT], the ranking minority member of the committee, whose generous cooperation is always appreciated. Similarly, the senior Senators from Delaware [Mr. WILLIAMS] and Massachusetts [Mr. SALTONSTALL], joined by the very able minority leader [Mr. DIRKSEN] and others, were characteristically sincere and strong in their opposition; characteristically too, they were fair in assuring orderly disposition.

Finally, we are once again grateful to the Senate as a whole for another achievement obtained swiftly, yet orderly and with mutual respect for the views of all.

ADMINISTRATION FAILURES IN VIETNAM WAR

Mr. CURTIS. Mr. President, every thoughtful American is disturbed about the failures of the administration in reference to the Vietnam war.

American boys have been committed to fight in a far-removed place where the odds are most difficult. It is indeed tragic that our fighting men should have to contend with any shortages whatever. This country is capable of better support for our fighting men than they are receiving. It matters not what the shortages are, nor what the particular circumstances are.

Individuals in the House and Senate, devoted to the cause of bringing about peace and staying out of war, have time and again raised serious questions concerning the policies, decisions, statements, and record of the Secretary of Defense. Reading what is said on all sides of this controversy raises a question of credibility.

Mr. President, I ask unanimous consent to have printed at this point in the RECORD an editorial by Robert Hotz from the May 2, 1966, issue of the magazine, Aviation Week & Space Technology.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

THE CREDIBILITY GAP WIDENS

(By Robert Hotz)

Congressional criticism of Defense Secretary Robert S. McNamara has risen in an unprecedented crescendo during recent weeks over a wide variety of issues including management of the Vietnam war, development of new manned bombers and the combat readiness of U.S. forces not already committed to southeast Asia. Unfortunately, Mr. McNamara's replies to these critics have been characterized by an increasing flow of invective and irrelevant statistics that carry the arguments off tangentially from the points at issue.

For a man who has always publicly prided himself on hewing to the facts wherever they may fall, Mr. McNamara made some amazing statements in his recent 3-hour testimony before the Senate Foreign Relations Committee. Since Mr. McNamara has retorted "baloney" to some of his critics' allegations and "shocking distortion" to others, we feel it only fair to point out some of the significant "baloney" and distortion in Mr. McNamara's dazzling performance before Senator FULBRIGHT's committee.

Mr. McNamara, in attempting to answer charges of bomb shortages in Vietnam, told the committee:

"The reason why they [USAF] thought 750-pound bombs were surplus in 1964 was that nobody contemplated that the B-52s, designed for nuclear operations, would be carrying out 750-pound conventional bombing operations. * * * The use of B-52 bombers, not in nuclear operations but in dropping 750-pound bombs 50 at a crack, was never conceived of."

SAC BOMBING PROFICIENCY

This is simply not true. Strategic Air Command trained both its B-47 and B-52 crews on a quarterly basis from 1958 through 1961 to keep proficient in dropping iron bombs from internal bomb bays. The requirement was dropped in 1962 but resumed in 1963 at the insistence of Gen. Thomas Sarsfield Power, then SAC commander. In March 1964, General Power intensified SAC crew training with iron bombs and in May 1964, initiated a program to install external racks to increase the iron bomb load on some B-52s. Actual tests of this configuration began at Eglin AFB in August 1964. When escalation of the Vietnam war in 1965 produced an urgent requirement for large quantities of iron bombs to saturate targets in short periods of time, the SAC B-52 crews were already trained and equipped to do this job.

Mr. McNamara emphasized to the committee that the 1,600 U.S. military helicopters now in Vietnam are more than all U.S. forces had when he became secretary of defense and more than either the rest of the free world has or are in the combined Sino-Soviet inventory. This is perfectly true, but it conveniently ignores the fact that this Vietnam force level has been achieved only by stripping modern helicopters from other U.S. combat forces. It overlooks the pertinent fact that Mr. McNamara for several years drastically cut Army budget requests for helicopters on the ground that they would not be needed. He is now pouring money into a crash helicopter production program that proves more conclusively than any words that the Army's judgment on helicopter requirements was far more accurate than Mr. McNamara's.

Similarly he explained the tremendous demand for 2.75-inch rockets in Vietnam as due to the Army's discovery there for the first time that it needed armament for its helicopters. The fact is that the Army has been trying to develop armed helicopters since the early 1960's, only to be denied the dollars by the Secretary of Defense. Because of this

the Army helicopters in Vietnam still carry jury-rigged armament, and the first purchase of a helicopter specifically designed and developed with armament was not authorized by Department of Defense until 1966.

KOREAN WAR SURPLUS

Another statement that will shock those who have been in the defense business a great deal longer than Mr. McNamara was his assertion to the Senate committee that "it is really immoral to spend \$12 billion of this Nation's resources for surplus as we did during the Korean war," and that he intends to buy everything needed for Vietnam but not one thing more. Again Mr. McNamara conveniently overlooks the fact that in the Korean war this country mobilized not only to combat the North Korean and Chinese armies in Korea, but also to meet the possibility of Russian intervention and a third world war. By this action, President Truman and his defense chiefs unquestionably averted the outbreak of another general war and discouraged the spread of Soviet aggression to Europe.

If Mr. McNamara really believes it is possible to fight and win a war killing the last enemy with the last bullet as the last soldier eats the last can of beans in the quartermaster's stores, this Nation faces serious trouble ahead. Events have already proved that some of Mr. McNamara's military judgments have not been as sound as he imagined. But if he persists in trying to budget the Vietnam war or any other military confrontation with the goal of emerging with no surplus materiel, he will actually be budgeting shortages in combat equipment for the future. War is an illogical and wasteful enterprise that inevitably defies the efforts of man to calculate its fury precisely.

Almost 2 years ago we warned that a credibility gap was widening between the events transpiring in Vietnam and the versions of them that Mr. McNamara was dispensing to the American people. Mr. McNamara's recent exercises in revising history and attempting to dazzle his congressional critics with irrelevant statistics are further widening this credibility gap. Unfortunately, this is the very time that the increasing U.S. involvement in the Vietnam war requires the clearest public understanding of this military effort and the foreign policy on which it is based.

TRAFFIC SAFETY ACT—AMENDMENT NO. 537

Mr. MONDALE. Mr. President, I ask unanimous consent that a fine editorial from the Washington Post of May 2, 1966, entitled "Next," recommending the inclusion of Amendment No. 537 in the Traffic Safety Act legislation be printed at this point in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

[From the Washington Post, May 2, 1966]

NEXT?

In April alone, the public has learned that: Lincoln has told dealers to recall 40,000 Continentals to repair a braking defect.

Buick told dealers last December to recall certain 1964 models for a possibly troublesome brake condition.

Chrysler Corp., told dealers in November 1964, to recall certain Plymouths, Chryslers, and Dodges for a welding job on a steering bracket.

Ford told 30,000 owners of 1965 cars that their ride could be improved by a change in the rear suspension, not saying that their ears could go out of control if a suspension arm broke.

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
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OFFICE OF BUDGET AND FINANCE
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Issued May 12, 1966
For actions of May 11, 1966
89th-2nd; No. 78

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HIGHLIGHTS: House Rules Committee cleared participation sales bill. Rep. Talcott criticized this bill. Rep. Quie charged USDA with "misuse of farm policy to manipulate prices. Rep. Ullman stated cost-price squeeze cannot be borne by agricultural economy indefinitely.

HOUSE

1. LABOR STANDARDS. The Rules Committee reported a resolution for consideration of H. R. 13712, to amend the Fair Labor Standards Act of 1938 to extend its protection to additional employees and to raise the minimum wage (p. 9846). This bill extends the minimum-wage and overtime provisions to agricultural, logging, and Federal employees, among others. The minimum wage for agricultural employees would begin at \$1 per hour effective Feb. 1, 1967, and gradually increase to \$1.30 effective Feb. 1, 1969.

2. PARTICIPATION SALES. The Rules Committee reported a resolution for consideration of H. R. 14544, the participation sales bill. pp. 9846-7

Rep. Talcott criticized the participation sales bill (p. 9806), and Rep. Rhodes, Ariz., inserted the Republican Policy Committee statement calling this bill "a new level of fiscal irresponsibility" (pp. 9831-2).

3. POVERTY. The "Daily Digest" states that the Rules Committee deferred action on H. Res. 670 and similar resolutions, to create a select committee to investigate the operation of the Economic Opportunity Act. p. D407

4. POSTAL RATES. Rep. Derwinski questioned the "actions of officials of the Post Office Department in lobbying for H. R. 14904," to revise postal rates on certain fourth-class mail. p. 9824

5. EXPENDITURES. Rep. Patman commended and inserted Secretary of the Treasury Fowler's "description of the Federal expenditure control policy." pp. 9824-27

6. GOVERNMENT-BUSINESS COOPERATION. Rep. Patman commended the Campbell Soup Co. for its opening of a new plant in a predominantly rural area and inserted a speech by the company president urging a better understanding between Government and business. pp. 9827-8

7. WORLD POPULATION. Rep. Younger commended and inserted an address, "Is Famine the Only Answer?" outlining the work of the Planned Parenthood-World Population organization. pp. 9832-4

8. ECONOMY. Rep. Curtis commended and inserted an article by Sen. Jordan which he states is a "persuasive case against the administration's policy of putting the burden on the private sector for preventing an inflation which is largely the result of administration policies to stimulate the economy." pp. 9834-5

9. FARM PRICES. Rep. Quie stated that this Department "is confident that by 'bribing' livestock farmers with low feed grain costs, it can bring down the price of meat, both to the farmer and to the consumer." p. 9835

SENATE

10. APPROPRIATIONS. A subcommittee of the Appropriations Committee approved for full committee action H. R. 14266, the Treasury, Post Office, Executive Office, and independent agencies appropriation bill. p. D404

ITEMS IN APPENDIX

11. GREAT SOCIETY. Rep. Shriver inserted a speech critical of the Great Society programs and presenting thoughts regarding the impact of Federal programs on business and labor. pp. A2547-9

12. FOREIGN TRADE. Extension of remarks of Rep. Dulski urging enactment of legislation to amend the Antidumping Act in order to clarify standards and improve procedures in the administration of the act. pp. A2549-50

13. FARM PRICES. Extension of remarks of Rep. Ullman stating that "The burden of the cost-price squeeze cannot be borne by the agricultural economy of the Nation indefinitely..." and inserting a statement of the Oreg. Beef Council and Cattlemen's Ass'n on this subject. pp. A2552-3

CONSIDERATION OF H.R. 14544

MAY 11, 1966.—Referred to the House Calendar and ordered to be printed

Mr. YOUNG, from the Committee on Rules, submitted the following

R E P O R T

[To accompany H. Res. 852]

The Committee on Rules, having had under consideration House Resolution 852, report the same to the House with the recommendation that the resolution do pass.



House Calendar No. 243

89TH CONGRESS
2D SESSION

H. RES. 852

[Report No. 1522]

IN THE HOUSE OF REPRESENTATIVES

MAY 11, 1966

Mr. YOUNG, from the Committee on Rules, reported the following resolution;
which was referred to the House Calendar and ordered to be printed

RESOLUTION

1 *Resolved*, That upon the adoption of this resolution it
2 shall be in order to move that the House resolve itself into
3 the Committee of the Whole House on the State of the
4 Union for the consideration of the bill (H.R. 14544) to
5 promote private financing of credit needs and to provide
6 for an efficient and orderly method of liquidating financial
7 assets held by Federal credit agencies, and for other pur-
8 poses. After general debate, which shall be confined to
9 the bill and shall continue not to exceed four hours, to be
10 equally divided and controlled by the chairman and ranking
11 minority member of the Committee on Banking and Cur-
12 rency, the bill shall be read for amendment under the five-

1 minute rule. At the conclusion of the consideration of the
2 bill for amendment, the Committee shall rise and report the
3 bill to the House with such amendments as may have been
4 adopted, and the previous question shall be considered as
5 ordered on the bill and amendments thereto to final passage
6 without intervening motion except one motion to recommit.
7 After the passage of H.R. 14544, it shall be in order in the
8 House to take from the Speaker's table the bill (S. 3283)
9 and to move to strike out all after the enacting clause of said
10 Senate bill and to insert in lieu thereof the provisions con-
11 tained in H.R. 14544 as passed by the House.

RESOLUTION

Providing for the consideration of the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

By Mr. Young

MAY 11, 1966
Referred to the House Calendar and ordered to be printed



United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 89th CONGRESS, SECOND SESSION

Vol. 112

WASHINGTON, WEDNESDAY, MAY 11, 1966

No. 78

Senate

The Senate was not in session today. Its next meeting will be held on Thursday, May 12, 1966, at 12 o'clock meridian.

House of Representatives

WEDNESDAY, MAY 11, 1966

The House met at 12 o'clock noon.

The Chaplain, Dr. Edward G. Latch, D.D., offered the following prayer:

I am the vine, ye are the branches. He that abideth in me, and I in him, the same bringeth forth much fruit.—John 15: 5.

We thank Thee, our Father, for Thy spirit which follows us all our days, for Thy love which will not let us go, and for the strength of Thy presence which never lets us down. Help us to open wide the door of our hearts that we may receive Thy spirit, welcome Thy love, claim the strength of Thy presence and thus be made ready for the experiences and responsibilities of this day.

By Thy grace may we put goodness before evil, truth before falsehood, high principle before low prejudice, the rights of the weak before the wrongs of the strong, and may we put Thee above all else, in the name of Jesus Christ our Lord we pray. Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Arrington, one of its clerks, announced that the Senate had passed, without amendment, a bill of the House of the following title:

H.R. 14732. An act to authorize appropriations to the Atomic Energy Commission in accordance with section 261 of the Atomic Energy Act of 1954, as amended, and for other purposes.

The message also announced that the Senate had passed, with amendments in which the concurrence of the House is requested, a bill of the House of the following title:

H.R. 11439. An act to provide for an increase in the annuities payable from the District of Columbia teachers' retirement and annuity fund, to revise the method of determining the cost-of-living increases in such annuities, and for other purposes.

The message also announced that the Senate agrees to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 14012) entitled "An act making supplemental appropriations for the fiscal year ending June 30, 1966, and for other purposes."

(Mr. VANIK asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

[Mr. VANIK addressed the House. His remarks will appear hereafter in the Appendix.]

BELLS OF AMERICA RINGING FOR FREEDOM

(Mr. DUNCAN of Tennessee asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. DUNCAN of Tennessee. Mr. Speaker, I want to commend the American Legion on its program "Bells of America Ringing for Freedom" which is conducted in each department to celebrate the date this country became an independent nation.

At 2 p.m., eastern daylight time, on July 4, 1966, the Liberty Bell will lead the ringing of bells throughout this land to remind America of its freedom and liberty. We will celebrate the 190th birthday of the United States this July.

I would like to encourage all Americans to participate in this patriotic event.

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

Mr. BOGGS. Mr. Speaker, I ask unanimous consent that the Committee on Interstate and Foreign Commerce may be permitted to sit during general debate today.

The SPEAKER. Is there objection to the request of the gentleman from Louisiana?

There was no objection.

CALL OF THE HOUSE

Mr. HALL. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. BOGGS. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 93]

Abernethy	Fogarty	Morse
Adair	Fraser	Morton
Ashley	Frelinghuysen	Moss
Baring	Griffin	Murray
Blatnik	Hagan, Ga.	Nix
Bolton	Helstoski	Pickle
Brademas	Henderson	Pool
Brock	Hull	Powell
Burleson	Hutchinson	Rivers, S.C.
Callaway	Johnson, Pa.	Rodino
Carter	Kee	Rooney, N.Y.
Casey	Kelly	Rosenthal
Cederberg	King, Utah	Rumfeld
Chelf	Kupferman	Shriver
Conyers	McEwen	Sullivan
Corman	McMillan	Sweeney
Daddario	Madden	Toll
Diggs	Mailliard	Tupper
Dorn	Martin, Ala.	Ull
Dowdy	Mathias	White, Idaho
Duncan, Oreg.	Michel	Whitten
Ellsworth	Monagan	Williams
Findley	Moorhead	Willis

The SPEAKER. On this rollcall 362 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

CORRECTION OF VOTE

Mr. JONES of Alabama. Mr. Speaker, on rollcall No. 92 I am recorded as not voting. I was present and voted "yea." I ask unanimous consent that the permanent Record and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Alabama?

There was no objection.

CORRECTION OF VOTE

Mr. GREIGG. Mr. Speaker, yesterday, on rollcall No. 91, I had a live pair with the gentlewoman from Missouri [Mrs. SULLIVAN]. I withdrew my vote of "nay" and voted "present." I was erroneously reported as "Mr. GRAY" in the RECORD.

I ask unanimous consent that the permanent Record and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Iowa?

There was no objection.

RUMANIA AGAIN WILL BE FREE

(Mr. O'HARA of Illinois asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. O'HARA of Illinois. Mr. Speaker, our beloved country has been enriched by the presence among us of many men and women who came from the proud land of Rumania and their children and their children's children in whose veins courses Rumanian blood. All Americans join with them in celebration of the national holiday of Rumania and in the prayers that soon Rumania will reign again as a free and sovereign nation.

It was a hundred years yesterday that Prince Charles of Hohenzollern-Sigmaringen was proclaimed Prince of Rumania. This marked the founding of the Rumanian dynasty. In 1877 the principality severed her links with the Ottoman Empire and on May 10, just 15 years after the founding of the dynasty, Charles I was crowned King of Rumania.

For 21 years now Rumania has lived unhappily in the midnight darkness of Soviet captivity. On this anniversary we renew our pledge of eternal friendship. Mr. Speaker, we will stand by until the light of day has returned and once again freedom rings in the proud land of Rumania.

CORRECTION OF THE RECORD

Mr. MACGREGOR. Mr. Speaker, there were a couple of typographical errors in the RECORD of yesterday's proceedings. I ask unanimous consent that the permanent Record and Journal be corrected as follows:

On page 9744 column 2: "My amendment would have \$280 mil-" should read: "My amendment would save \$280 mil-".

Column 3—middle: insert commas af-

ter "trans-Atlantic," and after "spiral of Federal Government spending."

On page 9745, column 1: Instead of the way it has been reported, the RECORD should read: "true that a private group approached some of the members of your committee or of another committee of the Congress with a proposal to finance privately the continued."

The SPEAKER. Is there objection to the request of the gentleman from Minnesota?

There was no objection.

PARTICIPATION SALES ACT MAY ELIMINATE TAX-EXEMPT STATUS OF LOCAL GOVERNMENT AND COLLEGE FACILITY SECURITIES

(Mr. TALCOTT asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. TALCOTT. Mr. Speaker, in my opinion, the proposed Participation Sales Act of 1966, H.R. 14544, is being rushed and railroaded through the Banking and Currency Committee, Rules Committee, and the Congress because it is a bad bill and cannot withstand deliberation, debate, or exposure.

The bill was hastily concocted to hide the growing Federal deficit, the increasing national debt, and the accelerating administration expenditures.

Not only will the taxpayer pay dearly to permit the administration to conceal growing deficits, debts and spending, but other important consequences are likely to follow.

Today, certain securities held by the Community Facilities Administration, and other Federal agencies which lend to local governments and colleges, are tax exempt. This tax-exempt policy was designed to encourage this very necessary investment in local government and education.

The proposed FNMA participation sales would permit the pooling of tax-exempt securities with taxable securities.

The FNMA participation certificate would bear taxable interest even though some of the underlying pooled securities are tax exempt.

This may be unconstitutional. This may be the first step on the part of the Treasury Department and the Johnson-Humphrey administration to eliminate tax exemption on certain local and educational investments.

The proposal to substitute a Federal guarantee for the tax-exempt status of State and local government bonds may be another threat to tax immunity. The increased costs inherent in this proposal may seriously hamper the ability of local governments and colleges to meet the increasing demands placed upon them to provide public facilities.

If your communities or colleges have borrowed from the Community Facilities Administration, I suggest you obtain better answers than I have been able to obtain about this participation sales pro-

posal or it might come back to haunt you.

This is only one of dozens of unanswered questions about H.R. 14544.

BANKRUPTCY THREATENS INDEPENDENT TRAVEL AGENTS—UNFAIR COMPETITION FROM BANKS THE CAUSE, CHARGES TRAVEL ASSOCIATION OFFICIAL

(Mr. PATMAN asked and was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. PATMAN. Mr. Speaker, the ever-accelerating trend of large commercial banks elbowing their way into many nonbanking business activities continues.

Not only is it against the law, both State and Federal, for banks to engage in nonbanking activities, but this unfair competition threatens the very existence of many small, independent businessmen. Our commercial banks have much captive business—everyone must come to them because of their monopoly on checking accounts. Furthermore, the vast financial resources of these banks means that money is no problem in barging into new fields.

At the present time, one does not have to look hard or long to see banks engaging in insurance, personal property leasing, securities, accountancy, electronic data processing, mortgage servicing, travel services, tax services, credit cards, and so on. In several instances of these nonbanking activities, lawsuits have been filed, and rightly so, to prevent unfair and illegal bank competition, but just because an injured person has a legal remedy does not excuse a bank or bank supervisor for their actions.

With unanimous consent, I will insert at this point in the RECORD a recent letter I received from the President of the Association of Travel Agents, Mr. Othmar G. Grueninger, of Indianapolis, Ind., as well as my reply to him:

ASSOCIATION OF RETAIL TRAVEL AGENTS,
Indianapolis, Ind., April 27, 1966.

Mr. WRIGHT PATMAN,
Chairman, House of Representatives, Rayburn
House Office Building, Washington, D.C.

DEAR MR. PATMAN: For your information we are enclosing two sample tour brochures, a joined effort of four of the local national banks which are merchandised not only through the travel department of each bank but are also displayed in their lobbies and in those of the multiple corresponding State banks.

The buying power of four national banks are becoming too much competition for the little agents as an example shown here in Indianapolis alone. On account of the overwhelming concentration of position in the travel field, that is to say, direct mailing lists, service of their research departments, influence of their loan departments, which theoretically enables them to loans subject to doing business with the banks travel department.

ARTA feels that the time has come that steps be taken to restrict banks from driving all travel agents to the brink of bankruptcy.

Mr. PRICE. Mr. Speaker, we have occasions in this House in which Members pay tribute to the spirit of freedom living still in the countries of Eastern Europe. One of these nations is Rumania and we have special reason to join in acknowledgment of a special anniversary in Rumanian history.

The 10th of May, for various historic reasons, is accepted by Rumanians as their day of independence. The day will not be celebrated, however, in the Rumanian homeland. All such celebrations have been suppressed.

So it falls upon the exiles abroad, the descendants of Rumanian ancestry living abroad, the defenders of freedom generally, to make sure that the day does not pass unnoticed and ignored.

We can share, in this House, in the celebration of the 10th of May as Rumania's Day of Independence.

The cause of freedom and national self-determination is our cause wherever it may be centered. We are nationalists ourselves, we are Americans, but we know that freedom is indivisible.

The Rumanian people have been part of western society since the days of the Romans. Their language is related, as ours is, to the Latin and the affiliated Romance tongues. Their innate sense of identity with the Western World is as deep rooted as ours.

So we must pay our respects to a brave people living temporarily under an Iron Curtain government. In this manner we honor not only the Rumanians but do our duty to ourselves.

SPECIAL ORDER TRANSFERRED TO TOMORROW

Mr. PUCINSKI. Mr. Speaker, I ask unanimous consent that the special order that I have for today for 30 minutes be transferred to tomorrow, May 12.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

RECOVERY, INC.

(Mr. YATES asked and was given permission to extend his remarks in the body of the RECORD.)

Mr. YATES. Mr. Speaker, Recovery, Inc., was founded in 1937, by the late Dr. Abraham A. Low, of Chicago, Ill., for the purpose of enabling recovered mental patients and nervous patients to prevent relapses and chronicity by a system of self-help aftercare. Recovery is now serving a very vital and valuable need in the realm of mental health. The particular type of help involved is that of making available the Recovery type of self-help aftercare to all those who have need of it. It has as its purpose the prevention of relapses and chronicity, supplementary to that which a psychiatrist or a physician provides for a patient.

Recovery had its origin in Chicago, Ill.; today it has grown to the point where there are approximately 10,000 persons attending Recovery meetings in 548 groups, in 34 States of the United States. The organization is presently incorporated under the laws of the State of Illinois, as a voluntary nonprofit corporation. However, because of the national

scope and the extent of the work of Recovery in achieving better mental health, this bill is being introduced to supply a vital need to the organization in order that it may extend its beneficial assistance to an even greater extent than has heretofore been possible. The approval of a congressional charter would facilitate the carrying out of Recovery's work and assist considerably in the fulfillment of its objectives.

At the time of the incorporation of the Recovery program in Illinois, in the year 1941, the range of activities of the organization was confined to the State of Illinois, and therefore, the desirability or need for broader corporate protection did not actually present itself. Since the year 1941, however, Recovery has expanded considerably—into many other States of the Union and into Canada. At the present time, the program is operating actively in 34 States of the United States. In 10 of these States, Recovery has had to qualify individually, under the voluntary nonprofit charter provisions of the statutes. While Recovery thus has corporate protection in the larger States of the United States, that is, in those parts of the country where there are congregated a large bulk of the Recovery groups, nevertheless, at the present time, there are 38 States left in which the organization does not have corporate protection. Individual registration or qualification to do business in each of the States in which it is functioning and wants to expand is a very difficult task involving a vast amount of work and the expenditure of large sums of money that could be better put to the use of expanding the Recovery program itself.

Accordingly, Mr. Speaker, the purpose of the bill being introduced at this time is to enable Recovery to become a truly national project, by the recognition that will be given its work by the passage of this bill.

It is important for all of us to remember that Recovery is a voluntary association of former patients who have banded together for the purpose of improving their own health, and expanding the services of the self-help program to others who need it. A more worthy project for national charter consideration could not be thought of, in my opinion, and I am sure that anyone who has taken the time, or wishes to take the time to investigate the organization and what it is doing in the field of improving our national mental health, will certainly agree. It is for these reasons that I urge the passage of the bill and ask that it be considered promptly.

COMMITTEE ON RULES

Mr. ALBERT. Mr. Speaker, I ask unanimous consent that the Committee on Rules may have until midnight tonight to file certain reports.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

LEGISLATIVE PROGRAM

(Mr. GERALD R. FORD asked and was given permission to address the House for 1 minute.)

Mr. GERALD R. FORD. Mr. Speaker, I have asked for this time for the purpose of asking the distinguished majority leader what the schedule is for the remainder of this week.

Mr. ALBERT. Mr. Speaker, will my able friend yield to me?

Mr. GERALD R. FORD. I yield to the gentleman from Oklahoma.

Mr. ALBERT. Mr. Speaker, I am glad the distinguished minority leader has asked this question because there is some change in the program.

The sales participation bill will not be brought up tomorrow as originally planned. It will be brought up early next week.

The only remaining bill on the program for this week is the bill S. 1098, to alleviate the national freight car shortage, and it is planned to call it up and consider that bill tomorrow.

Mr. GERALD R. FORD. I thank the distinguished majority leader.

PARTICIPATION SALES ACT OF 1966

(Mr. RHODES of Arizona (at the request of Mr. CONABLE) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. RHODES of Arizona. Mr. Speaker, at the May 10, 1966, meeting of the House Republican policy committee a policy statement regarding H.R. 14544, the Participation Sales Act of 1966, was adopted. As chairman of the policy committee, I would like to include at this point in the RECORD the complete text of this statement.

REPUBLICAN POLICY COMMITTEE STATEMENT ON PARTICIPATION SALES ACT OF 1966, H.R. 14544

With this bill, the Johnson-Humphrey administration has reached a new level of fiscal irresponsibility. In rapid succession we have witnessed 5 straight years of Federal budget deficits that have averaged \$6.2 billion, the dwindling of our gold supply from \$18 billion in 1960 to less than \$14 billion, a balance of payments deficit that has averaged \$3 billion a year, a rise in the budget from \$81.5 billion in 1961 to an estimated \$112.8 billion in 1967, the removal of silver from our coins, and a reduction in the gold that backstops our currency.

Now, under the provisions of H.R. 14544, the Johnson-Humphrey administration will be given the authority to establish a whole new system of backdoor, deficit financing. Under this system, all manner of grandiose Great Society programs can be funded by simply refinancing the billions of dollars in financial assets that the Federal Government presently owns and not one cent of this spending will be reflected in the budget.

Under the proposed Participation Sales Act, the Federal National Mortgage Association (FNMA) will sell participations in a pool of Government-held financial assets or loans, which could total \$33.1 billion. Unfortunately, the participation "sale" is a fiction. The purchaser does not acquire title to the pooled asset. All he acquires is the right to have his investment repaid with interest at the rate stated in the participation certificate. Moreover, the money acquired through these "sales" will be paid directly to the pooling agency and used to offset expenditures that normally appear in the budget.

The administrative budget for fiscal year 1967, after making several doubtful estimates of revenue, contemplates a budget

deficit of only \$1.8 billion. However, if the \$4.2 billion of participation sales authorized by this bill are not made, the budget deficit will be \$6 billion. It is interesting to note that, using the participations device, the administration could have projected a budget surplus rather than a deficit. But it chose not to do this. Apparently, it feared that such flagrant sleight-of-hand book-keeping at this stage of the game would alert the American public to its fiscal chicanery. In the event this bill is enacted into law, there certainly is reason to believe that this type of financial gymnastics will be resorted to in the future. Thus, the day of the publicly acknowledged deficit may be a thing of the past.

The largest and most rapidly growing Federal loan program is that of the Agency for International Development (AID). It is estimated that at the close of fiscal year 1967 the outstanding volume of direct loans made in foreign countries by this Agency will be \$12 billion. In its new role, FNMA could sell participations in a pool of such loans, even though in some instances AID loans bear interest as low as three-quarters of 1 percent per year. Obviously, these AID loans would be unsalable unless FNMA guaranteed the payment of principal and a reasonable rate of interest on the participations sold. AID holdings of foreign aid loans are expanding at a rate of \$1.5 billion per year. Under the present system, this money is appropriated by Congress and charged against the administrative budget. If this bill is enacted, the only charge against the administrative budget would be the appropriation to make up the deficiency between the income received on the loans and the interest cost of the participations sold. Thus, instead of the real cost to the taxpayers—\$1.5 billion—being charged against the budget, the charge, thanks to the provisions of this bill, would be as low as \$45 million per year.

The refinancing that is required under H.R. 14544 will cost the American taxpayers an additional \$5 million a year on each \$1 billion of the participations sold. Thus, in the event \$4.2 billion of participations are sold, there will be a cost to the taxpayer of \$21 million per year. If the average maturity for participations is 10 years, the taxpayer will be gouged over \$200 million in unnecessary expenses.

At the present time, the home mortgage market is in a state of turmoil and confusion. Home construction is at a dangerously low level. If the FNMA participation sales are authorized, the FHA and GI mortgages, and other home mortgages as well, will become less and less attractive to investors. In order to meet competition and obtain home mortgage financing, higher home mortgage financing costs will have to be imposed. As a result, the prospective home builders or buyers will be forced to carry an additional financial burden.

To date, FNMA has sold four issues of participations. Each time they have been sold to the same four big Wall Street investment houses. Transactions under this arrangement have totaled over \$1.6 billion, and over \$5 million of commissions have been paid. Under this bill, this clubby and financially advantageous arrangement could not only continue but could become even more lucrative. Certainly, at a minimum, the statute should require that these participations be sold on a competitive bid basis.

It has been claimed that the participations sale proposal contained in H.R. 14544 is an extension of the program inaugurated by the Eisenhower administration. In support of this contention, there is cited the FNMA swap in fiscal year 1960 of \$311 million of low interest mortgages for \$316 million of nonmarketable Treasury investment bonds owned by the public. The facts, however, reflect that these two programs are

totally dissimilar, and the Eisenhower program cannot be used as justification for the Johnson-Humphrey scheme. The Eisenhower program was a straightforward financial transaction. The mortgages were sold on a competitive bid basis, paid for by bonds held by investors. Actual title to the mortgages passed to the purchasers and proceeds were carried in the budget as a budget receipt. The bonds acquired by FNMA were surrendered to Treasury for cancellation. Thereupon, Treasury reduced FNMA indebtedness to it by a like amount. Thus, contrary to the proposed scheme, there was no budget runaround in the Eisenhower program.

As incredible as it may seem, this bill was not available to committee members until one-half hour before the hearings began. Thereafter, only 2 hours of hearings were held and the Republican members of the committee were denied the right or opportunity to call any witnesses. Moreover, not one witness from the unions, farming, business, or banking was called. At the conclusion of these totally inadequate hearings, the committee was ordered into immediate executive session and in less than 30 minutes, the bill was ordered reported.

Legislative action of this type goes far beyond even that which has become the standard rubberstamp procedure for this 89th Congress. This bill would permit the Johnson-Humphrey administration to conceal huge budgetary deficits. It would invite a spending spree that would delight the emperors of old. It can only lead to financial disaster. H.R. 14544 must be defeated.

IS FAMINE THE ONLY ANSWER?

(Mr. YOUNGER (at the request of Mr. CONABLE) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. YOUNGER. Mr. Speaker, on Monday, May 2, Gen. William H. Draper, Jr., national chairman of the Population Crisis Committee, made an address before the National Press Club outlining the work of the Planned Parenthood World Population organization. His address follows:

IS FAMINE THE ONLY ANSWER?

(By William H. Draper, Jr., national chairman)

Members of the National Press Club, I have just spent 6 weeks in Europe and Africa trying to determine whether the world's rapidly growing population is in fact outdistancing the world's supply of food, and whether hunger and starvation actually lie ahead for the developing countries of Asia, Africa, and Latin America.

INTERNATIONAL PLANNED PARENTHOOD

First I took a look at the population side of the equation. I was in London for a week visiting the headquarters of the International Planned Parenthood Federation. Family planning organizations in 40 countries make up its membership, including as one member the Planned Parenthood Federation of America.

Sir Colville Devereil, its able secretary general, reports that women everywhere, of all races and creeds, desperately want help to avoid unwanted pregnancies. He believes that when voluntary birth control facilities become available throughout the world, and when governments give adequate support, the population problem will be well on the way to solution. To meet that objective, the federation has doubled its budget this year and hopefully will double it again next year.

At the end of World War II, the world's population was growing at the rate of 1

percent a year, higher than ever before in the world's history. Now, only 20 years later, the annual rate has more than doubled to over 2 percent, thanks largely to the export of American medical miracles such as antibiotics and DDT powder to the entire world.

But this 2-percent world rate is far from uniform. Western Europe averages three-fourths of 1 percent, and has no serious population growth problem. Japan cut its population growth rate in half in 10 years and is now only nine-tenths of 1 percent. Russia and the United States average under 1½ percent, whereas Africa's population is growing over 2 percent. Asia averages 2½ percent, and Latin America's rate is nearly 3 percent.

Broadly speaking, the industrialized countries average about 1 percent a year growth. The rest of the world averages 2½ percent and includes more than 2 of the 3 billion people on earth today. These people in the developing countries are adding nearly 60 million of the 70 million new mouths that have to be fed each year.

"A LOSING BATTLE" FOR FOOD PRODUCTION

Then to check the world's food production, I flew to Rome and visited FAO—the Food and Agriculture Organization of the United Nations, which has "the official mission of increasing food production in the developing countries."

FAO has made three world food surveys and knows the facts about the production, distribution, and consumption of food throughout the world. Under Dr. B. R. Sen, its dynamic Director General who started the worldwide freedom-from-hunger campaign in 1960, it has a staff of some 3,000 at its headquarters in Rome and many more overseas. It is now preparing the first world food plan to assess the world's food surpluses and deficits, country by country, and to make specific recommendations for improvement.

FAO reports that per capita food production increased for 12 years after World War II in Asia, Africa, and Latin America. For the last 8 years, however, per capita production has been steadily slipping downward, and is simply not keeping pace with population growth. Dr. Sen speaks of "the losing battle against hunger and malnutrition in Latin America and the Far East." That is a polite way of saying that starvation may be unavoidable.

Dr. Sen has concluded that "the prospect seems dark indeed unless there is a combined worldwide effort to raise agricultural productivity in the developing countries along with determined measures to control population growth." He had the courage to ask the International Eucharistic Congress in Bombay, "Can we any more turn our faces away from the concept of family planning when the alternative is starvation and death?"

THE WHOLE WORLD IS WAITING FOR THE ANSWER

The fact is that most suitable land is already under cultivation, and that the developing countries cannot expect to increase their yield per acre fast enough to keep up with their population growth. How can a country like Brazil, for instance, possibly expect to support and feed a 3½-percent addition to its population each year when its own yield per acre of corn and wheat has actually declined during the last quarter century? Even Europe, which has increased its yield per acre by 2 percent a year would have a food problem today if its population were rising 2½ percent or 3 percent a year.

FAO's agricultural experience of the last 20 years, and particularly during the last 5 years, shows conclusively that under present conditions, without capital, without markets, without fertilizer, without modern

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HIGHLIGHTS: House debated participation sales bill. Senate committee voted to report fair packaging and labeling bill.

HOUSE

1. PARTICIPATION SALES. Began debate on H. R. 14544, to promote private financing of credit needs and to provide a method of liquidating financial assets held by Federal credit agencies. The rule providing for consideration of this bill was agreed to by a vote of 184 to 127. pp. 10062-87
2. INTERIOR APPROPRIATION BILL. House conferees were appointed on this bill, H. R. 14215, which includes Forest Service items. Senate conferees had been appointed. p. 10031

3. SOIL STEWARDSHIP WEEK. Sen. Albert commended this project and inserted the President's proclamation. p. 10032
4. VETERANS' LOANS. Passed as reported H. R. 7850, to extend the provisions for treble-damage actions to veterans' direct and insured loan cases. pp. 10034-5
5. COPPER IMPORTS. Passed under suspension of the rules H. R. 12676, to suspend duty on certain copper imports for the period Feb. 9, 1966, through June 30, 1968. pp. 10044-7
6. BANKING. Rep. Patman claimed Federal bank supervision causes high interest rates and unfair competition for thrift institutions. pp. 10088-9
7. LABOR STANDARDS. Del. Polanco-Abreu claimed the minimum wage bill is geared toward the mainland situation and that its agricultural and other provisions would harm Puerto Rico. pp. 10089-95
8. RECREATION. The Public Works Committee reported (May 13 during adjournment) with amendment H. R. 13313, to prohibit certain user fees on Corps of Engineers projects (H. Rept. 1531) (p. 10114). Rep. Cleveland inserted the Interior Department's report opposing this bill (p. 10099-100).
9. RECLAMATION. Rep. Tunney commended the "Imperial Valley success story." pp. 10105-6
- Both Houses
10. EXPOSITION. /received from the President the recommendations of the Commerce Department regarding Federal participation in the HemisFair 1968 Exposition to be held at San Antonio, Tex. p. 10114, 10133
11. WEATHER CONTROL. Received from the President the report of the Federal Council for Science and Technology, "National Atmospheric Sciences Program." p. 10114
12. CLAIMS. The Judiciary Committee reported with amendments H. R. 13650, to authorize increased agency consideration of tort claims against the Government (H. Rept. 1532); H. R. 13651, to avoid unnecessary litigation by providing for collection of U. S. claims (H. Rept. 1533); H. R. 13652, to provide a statute of limitations for certain actions brought by the Government (H. Rept. 1534); and H. R. 14182, to provide for judgments for costs against the U. S. (H. Rept. 1535). p. 10114
13. LEGISLATIVE PROGRAM. The House is scheduled to consider the Private Calendar today, to be followed by the participation sales bill and the minimum wage bill. p. D420

SENATE

14. AWARDS. The Foreign Relations Committee reported with amendments S. 2463, to grant the consent of the Congress to the acceptance of certain gifts and decorations from foreign governments (S. Rept. 1160). p. 10136
15. MARKETING. The Commerce Committee, on May 13, during adjournment, voted to report "in the nature of a substitute bill" S. 985, the proposed Fair Packaging and Labeling Act. p. D418

of candidates to be elected within that district.

"(c) The laws of Guam shall not alter the manner in which members of the legislature are to be elected as provided in subsection (b) of this section more often than at ten-year intervals: *Provided*, That any districting and related apportionment pursuant to this section shall be based upon the then most recent Federal population census of Guam, and any such districting and apportionment shall be reexamined following each successive Federal population census of Guam and shall be modified, if necessary, to be consistent with that census.

"(d) General elections to the legislature shall be held on the Tuesday next after the first Monday in November, biennially in even-numbered years. The legislature in all respects shall be organized and shall sit according to the laws of Guam."

SEC. 2. As soon as practicable after enactment of this bill, and subject to the conditions and requirements of section 10 of the Organic Act of Guam, as amended by section 1 hereof, the laws of Guam shall be amended to make provision for the manner of the election of members of the legislature. Until the laws of Guam shall make such provision, the legislature shall remain as it is upon the date of enactment of this bill.

The SPEAKER pro tempore. Is a second demanded?

Mrs. REID of Illinois. Mr. Speaker, I demand a second.

The SPEAKER pro tempore. Without objection, a second will be considered as ordered.

There was no objection.

Mr. ASPINALL. Mr. Speaker, I yield myself such time as I may consume.

(Mr. ASPINALL asked and was given permission to revise and extend his remarks.)

Mr. ASPINALL. Mr. Speaker, I am in favor of the enactment of H.R. 13298, a bill which will permit the Guam Legislature to district the territory, and apportion itself according to its wishes but subject to the provision that neither the districting or apportionment shall deny to any person on the island the equal protection of the law.

When the organic act of 1950 was enacted, our committee felt that the 21-member unicameral legislature, elected at large, could adequately represent the small, compact—206 square miles— island with a population of some 35,000, excluding the military. Like other areas under the U.S. flag the civilian population has increased to 47,000 to which may be added at least another 20,000 to 25,000 military personnel. Sixteen years ago the 21 legislators elected at large represented rural and urban area fairly equally. Such is not the case today. Several rural areas have no representation at all, while the three urban communities are possibly overrepresented. There are 19 election districts for some 20,000 eligible voters of whom 16,200 voted in the most recent election. Only 10 of 19 districts are represented in the eighth, the incumbent legislature. This absence of representation is not peculiar to the eighth legislature. The present speaker advised the committee the average number of districts represented in the eighth legislative session stands at 11. Removing the election-at-large requirement of the present statute and

permitting election by districts will allow the legislature to bring about a greater equality of representation, which is a hallmark of sound government. It will also encourage the voters of each district to concentrate on the capabilities of the district candidates rather than to have to weigh the merits of every candidate who presents himself.

Mr. Speaker, you will notice that we completely rewrote H.R. 13298 in committee. We believe its provisions now give assurance that the principle of one man, one vote will be applicable inasmuch as every voter in every district shall be entitled to vote for the whole number of persons to be elected from the district at that election as well as all the candidates running at large, if there are any.

This is permissive legislation. Possibly the Guam Legislature and the Guam voters will decide against districting. I would be surprised if they did, but this bill places the responsibility in their hands. Two years ago Congress passed legislation permitting the Government of Guam to pay the expenses of its legislators. The time is now ripe to let the voters decide the manner in which the legislators shall be elected.

Mr. Speaker, I yield such time as he may desire to the gentleman from New York [Mr. O'BRIEN], chairman of the subcommittee handling the legislation.

Mr. O'BRIEN. Mr. Speaker, I shall address myself briefly to this bill. It is much simpler than the Virgin Islands bill that was just disposed of because here we are merely giving to the people of Guam an opportunity if they desire it to reapportion their legislative districts. All of their legislators are presently elected at large. Perhaps in a compact area such as Guam that is all right. But if they desire to move into districts as we have in the mainland, this bill will give that authority.

We have no island problem such as we have with the Virgin Islands, and I think we can approve this bill without any difficulty.

Mrs. REID of Illinois. Mr. Speaker, I yield myself such time as I may require.

Mr. Speaker, I join my colleagues in supporting the passage of H.R. 13298, a bill to authorize the territorial legislature of Guam to provide by law for the election of some or all of its members by election districts.

Since World War II the people of Guam have experienced seemingly unlimited growth economically, politically and socially. I dare say that the Congress of the United States has helped foster the growth of Guam. The Congress has done so by legislative enactments which extended the principle of self-autonomy to the people of Guam. H.R. 13298, is a further extension of this principle.

The extension of this principle to the people of Guam as American citizens is in keeping with our responsibilities to promote the principle of self determination.

Mr. Speaker, I ask my colleagues to join me in support of this legislation and I urge its passage.

Mr. Speaker, I yield to the gentleman from Pennsylvania [Mr. SAYLOR] such time as he may require.

Mr. SAYLOR. Mr. Speaker, this is the fourth bill referred to the House of Representatives on the territories of our country.

Guam has made remarkable progress since we originally gave them the right to elect their own legislature. It is very evident that instead of being a burden as many territories are to other nations, Guam now is self-sufficient. They are proud American citizens. One of the rights of American citizens is to elect their own legislature. The people of Guam are very, very cognizant of this fact and the elections that have taken place on the island have been very spirited, indicating that they appreciate the opportunity to participate in their government.

With the House passage today of the bill permitting the people of Guam to elect their own governor and lieutenant governor and with the bill we are now considering this will be a great step forward, not only for those who live in these territories, but, in my opinion, it will be a great step forward in the history of our country in that the Congress of the United States is cognizant of its citizens wherever they may be—and that when they show that they have measured up to the privileges of citizenship that this Congress will give them increased responsibility.

Mr. Speaker, I urge that the rules be suspended and that this bill be passed.

Mr. ASPINALL. Mr. Speaker, I yield 5 minutes to the gentleman from Pennsylvania [Mr. CRALEY], sponsor of the legislation, and one who has dedicated his efforts to the people of these faraway islands.

[Mr. CRALEY addressed the House. His remarks will appear hereafter in the Appendix.]

The SPEAKER. The question is on the motion of the gentleman from Colorado that the House suspend the rules and pass the bill H.R. 13298.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended and the bill was passed.

A motion to reconsider was laid on the table.

CORRECTION OF THE RECORD

Mr. TUNNEY. Mr. Speaker, in the CONGRESSIONAL RECORD of May 10, 1966, I am listed as paired in favor of an amendment to provide \$20 million in rent supplement contractual authority, and \$2 million for payments under contracts in fiscal year 1967. An error was made, and I ask unanimous consent to have the permanent RECORD and Journal corrected to eliminate this pair.

Mr. Speaker, I was granted an official leave of absence by the House to take part in the United States-British Interparliamentary Conference on Africa on May 10. Had I been present on this, I would have opposed this amendment.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from California?

There was no objection.

CORRECTION OF VOTE

Mr. BURKE. Mr. Speaker, on rollcall No. 98, earlier today, I am recorded as not voting.

I was present and voted "aye." I ask unanimous consent that the permanent RECORD and Journal be corrected accordingly.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

SALE OF PARTICIPATIONS IN GOVERNMENT AGENCY LOAN POOLS

Mr. YOUNG. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 852, and ask for its immediate consideration.

CALL OF THE HOUSE

Mr. HALL. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 99]

Adair	Gilbert	Morgan
Baring	Goodell	Morse
Barrett	Green, Oreg.	Mosher
Blatnik	Griffiths	Moss
Boggs	Hagan, Ga.	Nix
Brock	Halleck	Olsen, Mont.
Brooks	Halpern	O'Neill, Mass.
Burleson	Hansen, Idaho	Ottinger
Byrne, Pa.	Hansen, Wash.	Pike
Cabell	Harsha	Poage
Cahill	Harvey, Ind.	Powell
Cameron	Harvey, Mich.	Purcell
Carter	Hawkins	Randall
Celler	Hays	Reid, N.Y.
Chelf	Helstoski	Reinecke
Clark	Henderson	Resnick
Clevenger	Herlong	Rhodes, Pa.
Colmer	Holland	Rodino
Conyers	Howard	Roncalio
Cooley	Hungate	Rooney, N.Y.
Corbett	Huot	Rooney, Pa.
Corman	Irwin	St. Onge
Curtis	Jacobs	Scheuer
Daddario	Jennings	Scott
Dague	Jones, Mo.	Shriver
Daniels	Jones, N.C.	Sickles
Davis, Wis.	Kornegay	Staggers
de la Garza	Kupferman	Stalbaum
Dent	Landrum	Stratton
Dickinson	Leggett	Sullivan
Diggs	Long, La.	Sweeney
Dow	McCarthy	Thompson, N.J.
Downing	McClory	Thompson, Tex.
Duncan, Oreg.	McDade	Toll
Edwards, Ala.	McDowell	Tupper
Ellsworth	McEwen	Ullman
Farbstein	McVicker	Vigorito
Farnsley	Macdonald	Walker, Miss.
Felghan	MacGregor	Watkins
Findley	Mackie	Watson
Flood	Madden	Watts
Fogarty	Martin, Ala.	Whalley
Ford	Mathias	Williams
Gerald R.	May	Willis
Fraser	Meeds	Wilson
Fulton, Tenn.	Michel	Charles H.
Gialmo	Mize	

The SPEAKER pro tempore. On this rollcall 294 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

SALE OF PARTICIPATIONS IN GOVERNMENT AGENCY LOAN POOLS

The SPEAKER pro tempore. The Clerk will report the resolution.

The Clerk read the resolution, as follows:

H. RES. 852

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes. After general debate, which shall be confined to the bill and shall continue not to exceed four hours, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Banking and Currency, the bill shall be read for amendment under the five-minute rule. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit. After the passage of H.R. 14544, it shall be in order in the House to take from the Speaker's table the bill (S. 3283) and to move to strike out all after the enacting clause of said Senate bill and to insert in lieu thereof the provisions contained in H.R. 14544 as passed by the House.

The SPEAKER pro tempore. The gentleman from Texas [Mr. YOUNG] is recognized for 1 hour.

Mr. YOUNG. Mr. Speaker, I yield 30 minutes to the distinguished gentleman from California [Mr. SMITH], pending which I yield myself such time as I may require.

(Mr. YOUNG asked and was given permission to revise and extend his remarks.)

Mr. YOUNG. Mr. Speaker, House Resolution 852 provides for consideration of H.R. 14544, a bill to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes. The resolution provides an open rule with 4 hours of general debate. After passage of H.R. 14544, it shall be in order to take S. 3283 from the Speaker's table, strike out all after the enacting clause of the Senate bill and insert in lieu thereof the House-passed language.

H.R. 14544 permits the injection of private capital and private financing into certain of the direct Federal lending programs. This purpose is accomplished by permitting the agency affected to transfer obligations held by it to a pool or pools under the management of the Federal National Mortgage Association. Private investors would, under the provisions of the bill, be permitted to purchase shares in this pool.

The sale of such shares would be credited to the account of the agencies whose obligations make up the pool. In every instance where such a participation pool were to be established, authorization for

the transfer of obligations would have to be contained in an appropriation act, thus providing Congress with continuous supervision and control over the gross amounts as well as the manner of such sales.

In many instances agencies having authority to make direct sales of their obligations, such as the Small Business Administration, and others having the authority to establish participation pools, such as the Veterans' Administration, are permitted on the sale of such loans or participations to relend such moneys without additional congressional approval. The Participation Sales Act of 1966 would, in effect, prevent this end run around the Appropriations Committee and thus subject such agency loan expenditures to congressional control.

The bill would in fact strengthen congressional control over direct lending programs. No longer will the perpetual motion, direct loan revolving funds be permitted to revolve without the intercession of congressional approval.

While it is true that the Nation has enjoyed unprecedented prosperity over the past few years, it is also true that the legitimate and competing needs for the public dollar cannot be uniformly satisfied through continued reliance on traditional techniques of public financing. It is essential that we tap the great financial resources of the private market if we are to attain the Great Society goals. H.R. 14544 will provide the substitution of private financing for certain direct loan programs and release public dollars to continue urgently needed public programs.

Mr. Speaker, I urge the adoption of House Resolution 852 in order that H.R. 14544 may be considered.

Mr. SMITH of California. Mr. Speaker, I yield myself such time as I may consume.

(Mr. SMITH of California asked and was given permission to revise and extend his remarks.)

Mr. SMITH of California. Mr. Speaker, House Resolution 852 makes in order the consideration of H.R. 14544, sale of participations in Government agency loan pools. The resolution provides for 4 hours of general debate. It is an open rule. Points of order are not waived, although this was requested. There may be several places in the bill where a point of order can be raised on the basis of a standing committee making an appropriation which they are not allowed to do under the provisions of rule XXI, clause 4 of the rules of the House of Representatives.

Mr. Speaker, testimony before the Rules Committee indicated that there are different interpretations of language in the bill by different individuals. My interpretation is as follows:

The purpose of H.R. 14544, according to the majority report of the Banking and Currency Committee, is to provide an orderly method of liquidating financial assets held by Federal lending agencies, and to continue to expand private credit participation in the funding of Government loan programs. This is to be achieved by authorizing such agencies as the Small Business Administration, the Farmers Home Administration,

the Export-Import Bank, the Department of Housing and Urban Development, and other Federal agencies with loan programs, to pool their loans with the Federal National Mortgage Association, which will sell participation certificates, representing an interest in the guaranteed return on the pooled loans.

Federal agencies pooling their loans will receive funds from FNMA representing the face value of their pooled loans, deposited to their account in the Treasury. These funds are available to the lending agency to draw on in order to make further loans. Some agencies, because of the language of the law governing their operations, will be able to use this device to actually exceed their authorized ceiling by means of continually making loans, pooling them, and using the proceeds to make more loans.

In this context, let us consider the Federal budget for fiscal year 1967. It contemplates a deficit of \$1.8 billion. To achieve this figure the administration must sell through the FNMA pool \$4.2 billion of its financial assets. The proceeds are treated in the budget as "income," though in reality a liquidation of capital assets is what has occurred. If the sales were not made, the budget deficit would be \$6 billion. Actually the administration could have wiped out the \$1.8 billion deficit merely by planning to pool additional assets. H.R. 14544 is an authorization to destroy, by juggling and manipulating the bookkeeping, the validity of the Federal budget.

In the same fashion as the budget, the validity of the Federal debt limit may be prostituted. The Government will still owe the obligations pooled and represented by the certificates. However, FNMA certificates are outside the Federal debt limit. By using the unlimited authority of FNMA to draw upon the Treasury to finance its operations, significant portions of the Federal debt can be removed from the Federal debt, thus deceiving the people as to the true figures.

Mr. Speaker, the Rules Committee held extensive hearings. They are printed and available; I recommend them to each Member. They are the only hearings available which are not pro forma. They are the only hearings on H.R. 14544 which actually seek to discover what the language of the bill will do.

The hearings clearly show the dangers of rushing legislation without careful consideration of the language. Prior hearings by a legislative committee on the general subject are no substitute for careful consideration of the exact language involved. Our record bears this fact out again and again; it shows that the legislative committee did not hold sufficient hearings to determine the actual meaning of the language in the bill. Repeatedly we received contradictory or vague answers; repeatedly the necessity of redrafting was pointed out. A number of amendments were discussed, and I understand some will be offered.

We Republicans are sometimes accused by our friends across the aisle of not caring for the people. Today we speak again for the people, for the farm-

er, the factory worker, the homeowner, for all those who use the private credit market in the normal course of their lives. We oppose the administration's efforts to embark on a financial gimmick which will have the effect of increasing the cost of credit for all Americans. A vote for this bill is a vote against the people, a vote for this bill is a vote for higher interest rates. A vote for this bill is a vote in favor of budgetary deception.

We heard considerable testimony as to the cost of raising Federal funds in this manner, as opposed to normal Treasury borrowing, which the Undersecretary of the Treasury states is done at an interest rate of 5 percent. Witnesses agreed that this was a more costly method of raising revenue; the only question was how much more. The Undersecretary testified concerning a recent FNMA offering at 5.33 percent. The most recent participation offering was sold at 5.5 percent, a full one-half of 1 percent above normal borrowing costs. The Undersecretary also testified that this bill will further tighten the money market; a tighter market will require a higher rate on these certificates. If the administration sells the projected \$4.8 billion worth of certificates rather than raising the money through conventional means, it may cost the taxpayers between \$15 and \$20 million in additional interest charges.

It has been claimed that the participations sale proposal contained in H.R. 14544 is an extension of the program inaugurated by the Eisenhower administration. In support of this contention, there is cited the FNMA swap in fiscal year 1960 of \$311 million of low-interest mortgages for \$316 million of non-marketable Treasury investment bonds owned by the public. The facts, however, reflect that these two programs are totally dissimilar, and the Eisenhower program cannot be used as justification for the Johnson-Humphrey scheme. The Eisenhower program was a straightforward financial transaction. The mortgages were sold on a competitive bid basis, paid for by bonds held by investors. Actual title to the mortgages passed to the purchasers and proceeds were carried in the budget as a budget receipt. The bonds acquired by FNMA were surrendered to Treasury for cancellation. Thereupon, Treasury reduced FNMA indebtedness to it by a like amount. Thus, contrary to the proposed scheme, there was no budget runaround in the Eisenhower program.

Against these facts, examine H.R. 14544. It is nothing more than a refinancing scheme which will make money available to operate Federal loan programs without reflecting the additional spending as a debit in the budget. It will, at the same time, appear to reduce Government spending, as loan programs are removed from individual agency lending programs in the budget and pooled in FNMA, whose operations are outside the budget and which has the right of an unlimited draw on the Treasury to make good any losses suffered. This is the biggest scheme to legalize backdoor

spending ever brought before the Congress.

At the present time, the home mortgage market is in a state of turmoil and confusion. Home construction is at a dangerously low level. If the FNMA participation sales are authorized, the FHA and GI mortgages, and other home mortgages as well, will become less and less attractive to investors. In order to meet competition and obtain home mortgage financing, higher some mortgage financing costs will have to be imposed. As a result, the prospective home builders or buyers will be forced to carry an additional financial burden.

Many times during the 89th Congress, we have debated over the means of achieving a result sought by all Members, the improvement of our society. Today we will debate a bill which lends no assistance to that end, which does not advance the well-being of the American people. It will be costly to the people, both directly and by increasing governmental costs.

Mr. Speaker, in my opinion, H.R. 14544 is a very bad bill, and I urge its defeat.

Mr. YOUNG. Mr. Speaker, I yield 5 minutes to the gentleman from Missouri [Mr. BOLLING].

Mr. BOLLING. Mr. Speaker, it is very seldom that I oppose a rule. I sometimes think that Members have forgotten what a rule is. It is a resolution which makes a piece of legislation in order, in a sense beyond the regular rules of the House. It in effect is a resolution which provides for the special consideration of a particular piece of legislation. The last rule that I voted against I discovered that a good many of my colleagues did not understand what I was saying when I voted against the rule. I voted against the resolution which made in order the consideration of legislation providing for the Vice President's residence, and then I voted for the bill because I have been in favor of a residence for the Vice President for a very long time. I voted against the rule because I was not for the consideration of that particular piece of legislation at that particular time. That is exactly the way I feel about this particular bill that is before us today.

The participation sales was presented to the Congress as an idea in the President's economic message in January of this year, January 24, to be exact. On the 20th of April a bill was presented to the Committee on Banking and Currency. I am not being critical of their procedure. They have a perfect right to function as they please. However, on the 21st of April that piece of legislation came out.

Now, I happen to believe that this is a very important, significant step. I think it is something that should be considered carefully and at length by the House of Representatives and the Congress, and with all due respect to the committee on which I serve, the Committee on Rules, as well as the Committee on Banking and Currency, I do not feel that it has had that kind of consideration. The people that purchase these participations or will purchase these participations were not heard before the committee. The mortgage bankers, the bankers generally, the

insurance companies, none of them were heard. Administration witnesses were heard. No doubt the administration is thoroughly convinced of the wisdom of this legislation. I do not impugn their motives or their good faith, but I think that the easier solution to this, a non-partisan—not a partisan—solution is to vote down this rule and let the Committee on Banking and Currency more carefully consider the matter.

Mr. SMITH of California. Mr. Speaker, I yield 5 minutes to the gentleman from Illinois [Mr. ANDERSON].

(Mr. ANDERSON of Illinois asked and was given permission to revise and extend his remarks.)

Mr. ANDERSON of Illinois. Mr. Speaker, this is a tremendously important bill that we are about to consider this afternoon. I feel that many Members of this body were more than a little bit surprised when they listened to the President's budget message in January and learned that in spite of the old programs and new programs, that we are going to wind up 1967 with a deficit of only \$1.8 billion.

Well, I believe now we realize, at least everyone in this Chamber realizes, just how this is going to be achieved. It is going to be achieved by selling off Government assets of better than \$7.4 billion. However, as the record of hearings before the Committee on Rules will show it is in reality not a sale of Government assets at all; merely a refinancing through the Federal National Mortgage Association.

Frankly, Mr. Speaker, I cannot be quite as charitable as the gentleman from Missouri [Mr. BOLLING], with reference to the cavalier treatment that this bill received in the Committee on Banking and Currency. The bill should have received more thorough consideration there. Instead that committee heard only two administration witnesses and concluded its hearings in less than a day without allowing any opposition witnesses to be heard.

It is my recollection that the entire record of hearings before the Banking and Currency Committee was only two-thirds the volume of the record on this bill compiled by the Rules Committee. I believe everyone will have to agree that we heard more witnesses before the Committee on Rules than were heard by the Committee on Banking and Currency. This is a highly unusual situation.

I feel that something has gone wrong, and we are witnessing a short circuiting of the legislative process in an effort to ramrod this bill through the House of Representatives.

You know there is something else that occurs to me this afternoon and that is this. The chief sponsor of this legislation, at least before the Committee on Rules, was the very distinguished gentleman from Texas [Mr. PATMAN]. I have listened to him for the last 5 or 6 years exhorting the big bankers and exhorting those who charge high and extortionate rates of interest and yet I find to my complete and utter amazement that he has reversed his position to the point where he is advocating that the

House of Representatives undertake to pass a bill that even the sponsors, even the Under Secretary of the Treasury, admitted before our Committee on Rules that, of course, it is going to cost the Federal Government more to borrow money to refinance these obligations through Fannie Mae than through Treasury borrowing of the usual kind.

You know it was not many months ago that the Nation mourned the passing of the last of the red hot mommas. I think it is time and I am beginning to think maybe we here must mourn the passing of the last of the red hot Populists. There is going to be a new Washington parlor game if this bill becomes law and that is going to be "Deficit, deficit, who's got the deficit" because nobody, literally nobody, is going to be able to tell where they have it hidden.

Maybe James Kilpatrick had it right when he explained just what the nature of the emergency was that brought this bill shooting out of the Committee on Banking and Currency, as he says, "Just like a little green pea under three walnut shells."

That is exactly the way I felt as I sat in the Committee on Rules for several days listening to the testimony on this bill. Because, as I say, this represents a very fundamental and basic decision. We should not be under any misapprehension as to what we are doing when we act on this bill.

This represents a very fundamental policy decision. We are to raise money that the Government so desperately needs today, but we are not going to borrow it, we are not going to raise taxes; instead we are going to try a new gimmick—we are going to try to sell off Government assets and hope somehow, somehow, we can thereby raise the money we need and at the same time conceal from the American taxpayers just what the true extent of our indebtedness is.

Elliot Janeway, the financial writer, was commenting on this bill a few days ago in a New York newspaper. He made this very cogent comment on the bill before us today:

JOHNSON RESOURCEFUL IN TAX ALTERNATIVE
(By Elliot Janeway)

NEW YORK.—Whatever President Johnson's critics may fault him for they can't deny that he is resourceful. Certainly, the gimmick he's relying on as an alternative to higher taxes is an artful one. It calls for the sale of Government assets to private investors.

What puts the authentic L.B.J. stamp on this maneuver is that it gets the President off the horns of the dilemma confronting him. Horn No. 1 is fiscal: the rising cost of the Vietnam war has run the Government out of money, and it needs more than even the boom is bringing in at current tax rates.

Horn No. 2 is political. The rising cost of living and of doing business has alerted consensus-taking politicians to the danger of adding the higher cost of Government to the burden of inflation-pinched taxpayers. All hands agree, for example, that Johnson's political losses from plumping for emergency war taxes would erase most of his winnings from civil rights and related victories. The political answer to the fiscal question comes through loud and clear: If the administration needs money for Vietnam, any way to raise it is smarter and safer than by emergency taxes.

BORROWING IS PROHIBITIVE

Horn No. 3 is prestigious: The rising cost of money has made borrowing prohibitive for everybody—including even the Government. To finance the war by borrowing would therefore be bad business, but it would also be bad public relations.

For Johnson has been building his image of prudent progressivism by pointing with pride to his modest budgetary deficits and by contrasting them with the Eisenhower and Kennedy deficits, which mushroomed into \$12-billion failures of political finance. Neither the Eisenhower image nor the Kennedy image led the public to expect business management from either personality, and the temper of the times did not particularly require it.

But the public does expect Johnson to pass the pragmatic test and so does the emergency that had developed in Vietnam. A "Johnson deficit" in wartime of the proportions of the peak peacetime Eisenhower and Kennedy deficits would look bad, and it would be bad.

NEW TRIPLE PLAY

Hence L.B.J.'s shrewd new asset-selling triple play. It will get him off the hook fiscally by flooding the Treasury with a bigger cash windfall than a preliminary war tax would have brought in. It will get him off the hook politically by finding the money needed for Vietnam without taking it from the taxpayers. And it will get him off the hook prestigiously because the substitute he has hit for borrowing means that the deficit won't go up even though billions will be raised without raising taxes.

Admittedly, financial purists will object that cash raised by the selling of assets is not bona fide income which balances expenditures and really avoids deficits. But, in terms of the practicalities of political image merchandising, L.B.J. has pulled off another one of his miracles. He can continue to point with pride to his businesslike management, and the customers won't start complaining.

NOT TO JOHNSON

At least to him, for while the administration's new asset-selling device does get Johnson out of his immediate fiscal political and prestige dilemma, it does not get the economy out of the 1966 money squeeze. On the contrary, the administration's new money-raising deal will give the screws another turn—in fact, the cruelest turn yet.

In order to make room in the liquidity-parched private sector for the billions in Government paper the administration proposes to dump on the money market, a suitable incentive will have to be provided. This means that the rate of return on Government-backed investments will have to rise again—the column believes to above 6 percent and, quite possibly, to 6½ percent, an interest-rate level which Congress would never authorize the Government to pay on new issues. A 6- to 6½-percent rate on Government issues is a peril point rate for the entire economy, beginning with the already suspect stock market.

If we take this step, we are going to do it at the expense of raising interest rates in the country.

The last issue of Fannie Mae participation sold for 5½ percent. The interest rate on long-term Treasury bonds is 4.25 percent. So the little fellow will go on supporting his Government by purchasing the long-term bonds that will bring him 4¼ percent and some of the Wall Street investment bankers and the big institutional investors, some of the firms we heard about in our hearings before the Committee on Rules, that already have a very cozy arrangement with Fannie

nie Mae—they will flock in and buy participations that will yield 5¾ percent.

So do not let anyone kid you, my friends. This bill is going to cost the Federal Government money. It is going to cost the taxpayers money when they subsidize the interest rates that are going to have to be paid. It is going to cost the consumers and it is going to cost the fellow who wants to go into the home mortgage market and find the money that he needs to buy a home. He is not going to find it. Why? Because why should a banker go out and buy an FHA or a GI mortgage or any kind of a home loan mortgage at 5½ percent and go to all the trouble and the expense and the risk of servicing that obligation?

If this bill is passed he will instead go to the Federal Government or FNMA and buy participations for 5¾ or 6 percent with no fuss, muss, or bother whatever.

I submit that this is a bad rule. The rule ought to be defeated. The bill ought to be defeated. We certainly found in the hearings we had before the Rules Committee that even the members of the legislative committee do not agree exactly on what this bill meant. In the middle of those hearings they agreed that certain amendments would be offered. But in the time that I have been a Member of this body, I have been told and reminded consistently that it is bad to write legislation of this nature on the floor of the House, and that is the reason why we customarily, I suppose, grant closed rules in the case of legislation coming out of the Ways and Means Committee.

I would suggest that it is bad legislative policy to try to rewrite this bill, faulty and defective as it is, on the floor of the House of Representatives today. I hope that the rule will be defeated.

Mr. SMITH of California. Mr. Speaker, I yield to the gentleman from California [Mr. TALCOTT] for the purpose of making a unanimous-consent request.

(Mr. TALCOTT asked and was given permission to revise and extend his remarks.)

Mr. TALCOTT. Mr. Speaker, if there ever was a time or a reason for defeating a rule, this is it.

Regardless of the merits—and there are not many—or any—good reasons for this bill now—we in Congress have some larger responsibilities, some more fundamental obligations.

The committee system—the backbone of our legislative process; an essential ingredient of our parliamentary procedure—is being flaunted.

In a large complex society, representative government is only as good as the legislative committee.

The Banking and Currency Committee has been ruthlessly and arrogantly demeaned and circumvented. If you permit this to happen to the Banking and Currency Committee it can happen to any committee of Congress—and no committee would be any longer necessary.

Let me review briefly the chronology of this bill. The President sent up an executive communication—which is not

important enough to be read in the House—and this was referred to the Banking and Currency Committee.

The day before, our committee was sent notice of a hearing on a bill not yet introduced.

The following day our committee met, Mr. Speaker, faster than a committee could respond to a Presidential request for a declaration of war.

The President's message in the form of an executive communication to Congress on the subject was delivered to the House on the same day. Such Presidential communication is not important enough to be read in the House. No subcommittee hearing was scheduled. The full committee could not begin until 10:40 a.m.—the Housing Subcommittee had a previously scheduled hearing at the regular meeting time of 10 a.m.—and printed bills were not available at 10 o'clock.

Only two witnesses, both administration officials, were called. No member was permitted more than 5 minutes for interrogation. Many members were not allowed to complete their questioning.

The committee adjourned at 11:55 a.m. and resumed the hearing at about 2:15 p.m.

At about 3 o'clock, the same day, a majority of the committee voted to close the hearing, excuse the witnesses, dismiss the public and the press, meet in executive session and vote out the bill. Four simple amendments were accepted without debate and the bill was passed in about 5 minutes.

Our committee spent 2 hours and 22 minutes on the bill. No general bill has received less attention or consideration by our committee for a long time.

A bare quorum attended the meeting. The chairman took votes. He was prepared. He had proxies for all absent majority members. The ranking minority member had no valid proxies because he could have had no idea that such an important bill, or any bill, would ever be voted out with so little consideration.

Again the Banking and Currency Committee has degraded itself and demeaned the legislative process, and the Congress. The parliamentary system has been flagrantly abused. Our committee has disdained debate and deliberation. A majoritarian device has been arrogantly applied: "We have the votes, so why deliberate?" Few would believe a once-facetious cliché has been given brutal currency: "My mind has been made up for me, so don't confuse me with the facts." The committee had its orders, so why even listen to any other views.

Some committee members, who were voted in favor of the bill had not even read the bill. This makes a travesty of our committee rules and the quality of our legislative process.

A good bill can stand debate, deliberation, full inquiry. A bad bill cannot withstand the light of day, the scrutiny of interrogation, the crucible of debate, the spotlight of public opinion.

H.R. 14544 must be a very bad bill. It is being rammed through the commit-

tee and the Congress before even Members of Congress can understand it or evaluate the consequences. It must be forced through Congress before the taxpayer discovers the added costs. Enactment must be railroaded before the citizens realize that an enormous deficit is building because of the "guns and butter" spending extravagances of the administration. Enactment is urgent before the people of the United States discover that instead of a \$1.8 billion deficit which the President promised, we really have a \$6 billion, or more, deficit. The bill must be enacted hurriedly before the public discovers the budgetary legerdemain.

The Chairman likens this bill to emergency legislation during the great depression of 1933. The terrible consequences of extravagant Federal spending are obviously imminent. We all know this. The growing inflation is convincing evidence. But we should do the right things, forthrightly, openly, after thorough study, debate, and deliberation. Gimmicks and tricks, which only postpone proper and necessary action until after the election, should not be tolerated.

The merits of every bill are important. But Members of Congress have a larger responsibility than any particular bill. We have an obligation to preserve sound parliamentary procedure, the committee system, and the right of the public to know fully about bills which we consider. We are not discharging our obligation. Our committee, the Congress, and the administration which is pressuring our committee to behave in this unseemly manner, will suffer and regret this performance.

This Committee is a crucible where legislation should be refined—Federal legislation affects every citizen of the United States and of the world—it should be as nearly perfect as possible. Legislation is not often perfected by amendments from the floor at the last minute. This bill was hastily conceived, loosely and poorly drafted—filled with contradictions and enormously broad, new authorities which were never questioned or discussed—certainly not explained, perfected or refined. The committee did not perform this function at all.

The legislative committee is the only practical agency for marshaling facts and obtaining expert opinion and professional advice. Only two Government witnesses were called—they testified only briefly—some members were prevented from questioning them. No private or industry witnesses were called. No participating agency heads were called. Not even the president of FNMA was called. Some witnesses who wanted to appear were not permitted to testify.

Some organizations were told to write letters in support of the bill when they had not even seen the bill. Some organizations heeled to the administration and wrote letters in support without any information or background.

Most experts in the financial industry are keeping mum on this bill—they know it is fraudulent.

The committee has neglected its fact-marshaling responsibility.

A committee of Congress should make certain that the press and the public know and understand the proposed legislation, its advantages, disadvantages, and consequences.

Some members of our committee voted to report this bill without even reading the title of the bill.

There are not three newspaper reporters who understood the bill—one reporter for a leading financial paper said:

How can I report on these hearings. I don't even know what a "participation" is.

There is more confusion, less understanding, of this bill than any other proposed in the last two Congresses. Yet our committee spent less than 2½ hours on it.

We have let the Members of Congress down. Few Members can explain this bill to a constituent. The Rules Committee was thoroughly confused—they spent more time on this bill than the Banking and Currency Committee. The under secretary of the Treasury spent more time explaining this bill to the rules committee than to Banking and Currency Committee. More major amendments were proposed and agreed to in the rules committee—believe it or not—than in our committee. Did you ever hear of trying to amend a bill in rules committee? Well it happened several times with this bill.

Our committee did not do its work. It did not gather the facts, it did not seek expert advice, it did not debate or deliberate the bill, it did not help to inform or advise the public, press, or Members of Congress.

The Chairman is not entirely at fault. He does not like this kind of a bill. This is a "high interest" bill. This is a "tight money" bill. This will raise the costs of housing especially. All of these things are contrary to everything our chairman has advocated for years.

Unless we study this bill more—unless we amend the bill—it will come back to haunt and embarrass everyone of us, including the chairman.

If you do not send this bill back to the committee—and permit the legislative committee to fully perform its function—you will be demeaning the committee system, degrading the Congress.

There are dozens of other reasons to defeat this rule—one example, only, and I will yield back my time—a point of order will be made. The ruling will either gut this bill or set a precedent which will get the appropriations power of Congress. You can avoid this dilemma only by defeating the rule.

No country or system can long tolerate an arrogance of power. A majority, no matter how great in numbers, will not survive if it cannot withstand the questions or ideas of the minority. Suppression of debate, ideas or the free expression of opinion—whether by brute force of arms, or by denial of the basic parliamentary functions—will inexorably undermine the majority, the Congress, and the Nation.

May I suggest that, in spite of your orders, you study thoroughly H.R. 14544.

Mr. SMITH of California. Mr. Speaker, I yield 5 minutes to the gentleman from New York [Mr. FINO].

Mr. FINO. Mr. Speaker, in my opinion this is the most confusing piece of legislation ever brought before this House. One of the reasons it is so confusing is that the proposal is self-contradictory. Another reason for the confusion is that our committee, the Banking and Currency Committee—and it is with some reluctance that I make this charge—simply has not done the job that it should have done in giving extensive and careful consideration to this legislation.

We spent less than 3 hours on this bill. We heard only two administration witnesses, with no notice to, or opportunity for, opposition witnesses to appear to testify on this bill. We held a very brief executive session, and adopted two amendments, one of which was in principle only, and without benefit of the text of the proposed amendment. When the text of one of these crucial amendments appeared as a committee amendment of this reported bill, many of us were astounded to note that the amendment apparently involved a far more reaching policy change in the appropriation process. The hearings of our committee on this most important measure consisted of only 61 pages of testimony, and of the 61 pages the first 21 pages is material simply laid into the record by the administration witnesses.

Our committee's actual consideration of the legislation, therefore, involves only 40 pages of the printed record.

Mr. PATMAN. Mr. Speaker, will the gentleman yield?

Mr. FINO. I am happy to yield to the distinguished chairman of the committee, the gentleman from Texas.

Mr. PATMAN. The gentleman remembers that we spent almost a month on a companion bill that covered every problem and every controversy that this bill has.

Mr. FINO. The gentleman knows full well that the subject of the bill to which he refers was only the SBA.

Mr. PATMAN. The SBA, but that bill involved the same question as in H.R. 14544. Frequently it was mentioned that the big bill would soon be up for consideration. We had 4 full days of hearings, and then we had consideration outside of the hearings. We had a 2-week Easter recess, and the staff, both Democratic and Republican members of the staff, worked during those 2 weeks on the bill. So, in effect, we had 4 weeks of consideration of this general proposal before our committee.

Mr. FINO. I hate to disagree with my distinguished Chairman, but this was an entirely different bill. It required full consideration. It required the full testimony of witnesses, and we did have witnesses who wanted to appear, but we did not give them the opportunity or the time to appear.

Our committee's hearings were so scanty and confusing that an unusual thing has happened. The House Agriculture Committee, because some of its programs were involved, took it upon itself to hold a hearing on our Banking and Currency Committee bill. For this, the Agriculture Committee is to be commended, and complimented, and praised.

The House Rules Committee, when it was considering the legislation, adopted the rather unusual procedure of that committee, actually holding hearings on this legislative proposal. The gentleman from California has already indicated that they had to do the job that we were supposed to have done. Its hearings comprise 101 pages of printed record. The Rules Committee is to be especially commended for its hearing. As a matter of fact, the Rules Committee hearing exceeds both in time and in printed record, hearings held by either the House Banking and Currency Committee or the Senate Banking and Currency Committee.

In the course of the Rules Committee hearing, as a result of probing the wide-open authority in the bill, the chairman of the Banking and Currency Committee agreed to offer amendments on the floor, to some extent circumscribing the wide-open authority of the bill which our committee had reported. To my mind, this is most unusual legislative procedure.

When the bill is read for amendment, numerous other amendments will have to be offered and adopted if the bill is to emerge as anything other than a legislative monstrosity. The House will simply have to do the job which our committee, the Committee on Banking and Currency, did not do and should have done in the first instance. It will be a complicated and confusing procedure.

There is only one way to eliminate the complications and confusion, and that is to defeat the rule.

Mr. YOUNG. Mr. Speaker, I yield 3 minutes to the distinguished gentleman from Florida [Mr. SIKES].

(Mr. SIKES asked and was given permission to revise and extend his remarks.)

Mr. SIKES. Mr. Speaker, there is another side to H.R. 14544, a meritorious side. This is not a new proposal. This bill would provide the same type of assets sales program which was utilized to good advantage by President Eisenhower's administration. It has received the support of the Bi-Partisan Committee on Money and Credit and the support of President Kennedy's Committee on Federal Credit programs. Thus, President Johnson is the third Chief Executive to support this concept in very recent years.

Instead of taking away congressional jurisdiction and control, as so many bills do, this one would expand congressional control to the pooling of assets for sale, and it would strengthen congressional appropriations control over Federal lending agencies and their financing.

It seems to me that is advantageous and desirable.

I am impressed by the fact that the bill will permit handling of sales by the Federal National Mortgage Association, an experienced, capable, and trustworthy agency. The FNMA will coordinate with Treasury's debt-management activities. The proposal will reduce interagency competition in the market. It will encourage the substitution of private credit for public credit in Federal lending programs. Certainly in those areas we would be taking important forward steps. There is much more to be said in favor

of the bill than there is in opposition to it. I support it. I hope it will pass. I say, let us try it. If there are Government assets which can properly be disposed of, why should we not take advantage of that fact? Why should we not also take advantage of a desirable new procedure for doing so?

Mr. SMITH of California. Mr. Speaker, I yield 5 minutes to the gentleman from Wisconsin [Mr. BYRNES].

(Mr. BYRNES of Wisconsin asked and was given permission to revise and extend his remarks.)

Mr. BYRNES of Wisconsin. Mr. Speaker, I might not take this time if it were not for the fact that the President, in a public statement—in which he was encouraging the Congress to enact this legislation—did list me as an advocate of what this legislation would authorize him to do.

I want to state categorically that I am opposed to the fiscal gimmickry and the sleight of hand that this bill would permit.

I did discuss the matter at one time with the President, and in the presence of Barr, Under Secretary of the Treasury, and I suggested that I would support legislation to authorize—and I thought we should have legislation—the promoting and making easier the sale of assets held by the Government which were marketable. But I said at that time both to the Under Secretary and to the President that I could not support this program which, in my judgment, was pure gimmickry.

I wonder how many really know what they will be voting for if they vote for this legislation. I am not so sure, frankly, that the President knows what is involved, because constantly the statement is made that this is a sale of assets. This is not a sale at all. This bill would simply authorize another means by which the Government could go out and borrow money.

What will a person get, if he comes down and says, "here is \$100,000, or \$1,000, or \$1 million; and I want some of these participation certificates?" What will he get?

I wish I had the time to cite the kind of certificate he would get. It is an I O U, a promise to pay, with a certain interest rate, to be paid on a certain date. It is simply a borrowing process. The Government will not sell anything but a promise to pay with interest.

In order to set it up as a new technique, it is said, "We will set aside these assets the Government has and put them in a pool." Fundamentally, the word of the Government that it will pay is just as good as having this so-called pool of assets as security. It is just a new device for borrowing money.

Why does the administration want this new device? They want it because of two restrictions we have in the law today with respect to Government borrowing.

First, the Congress establishes the borrowing limit, a debt ceiling limit. We are going to have hearings in the Ways and Means Committee next Monday and Tuesday on the question of a new ceiling for the debt limit. Whatever ceiling we

may set may be meaningless if this bill is enacted. The borrowing this legislation will permit will be entirely separate from the debt controlled by the ceiling.

This Congress has also established an interest limit of $4\frac{1}{4}$ percent on borrowings of the Government for longer than 5 years. But on this new borrowing there will be no limit. On this there is no limit on the amount of interest Uncle Sam will pay.

So they can get around two things by this proposal. No. 1, they can exceed the debt ceiling. No. 2, they can exceed the interest ceiling.

Let me say quite frankly, I believe we should raise the $4\frac{1}{4}$ percent interest ceiling. I believe that it is unrealistic and will get us into trouble. But the way to do it is honestly and frankly. Come to the Congress and say, "We want the ceiling raised or we want the interest ceiling eliminated."

I would say to some of my Democrat friends, it was just a few years ago when we got into a problem on interest rates. That was under the Eisenhower administration. A request was made to raise the ceiling. Government was in a very serious position in trying to properly manage the debt within a $4\frac{1}{4}$ -percent ceiling. But could we get the ceiling raised? No. The Democrat Congress refused.

Yet today you are apparently willing to vote an authorization to Uncle Sam to borrow with no statutory limitation on the interest rate, and it is acknowledged that the interest rate that will be paid to the buyers of these certificates—the interest rate that will be paid will be in excess of the interest rate that the Treasury has to pay when it goes into the market in the normal borrowing process.

Mr. Speaker, I say that this rule should be defeated and so should the bill. It is pure fiscal gimmickery.

Mr. YOUNG. Mr. Speaker, I yield 10 minutes to the distinguished chairman of the Committee on Ways and Means, the gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. Mr. Speaker, as we approach congressional action necessary to pass the participation sales bill into law, we face essentially a question of mechanics. Almost everyone agrees that we should sell substantial amounts of the direct loan assets held by the Government. There is no forceful argument in favor of immobilizing billions of dollars of the taxpayers' money in a growing portfolio held by our lending agencies. There is no convincing justification for taxing current incomes and tying up the money for years in direct loans or for borrowing money essentially at short term to lend at longer terms when private financing is available to do the job.

What we face is a question not of whether we should sell these direct loan assets—but how. The Federal Government has been involved in a major and growing program of direct sales of assets since the mid-1950's. Substantial amounts of direct loans have been transferred from the Government's portfolio to the private market through this program. However, although this program has worked, it has not worked well enough.

For one thing, direct sales conducted by as many as half a dozen Federal agencies sometimes conflict with each other and with the Treasury's debt management operations. But the chief disadvantage of relying on direct sales is that the portfolio of direct loans held by the Government is still growing. A total of \$25.1 billion was immobilized in the portfolio on June 30, 1961. Four years later, at the close of fiscal 1965, the figure had grown by \$8 billion—to \$33.1 billion. Even assuming completion of the sales contemplated in the latest Budget document, the estimated level for June 30 of this year is \$33.3 billion.

The primary reason for this growth in the portfolio is that the market for individual loans under Federal credit programs is limited. Often this has the effect of driving up the price—expressed in the yield that the Government must guarantee to private investors in order to interest them in direct purchases. Beyond that, we have found that the market often simply does not exist for much of the loan paper we hold.

One example of the marketing problem is found in the recent experience of the Small Business Administration, which has been engaged in selling its loan paper directly. In most cases, individual small business loans are too small and too expensive to administer to be very marketable. We have found that many private lenders, whether individual or institutional, will simply not invest in them. This condition led to introduction of a bill last year—and now passed by the Senate—to authorize participation sales of loans held by the Small Business Administration.

In testifying before the House Committee on Banking and Currency in March of this year, Mr. Schultze, Director of the Bureau of the Budget, after discussing the marketability of SBA direct loans and outlining the studies which had led to the bill, described the Small Business Administration's situation in the following words:

In the meantime, SBA has urgent needs for funds. To help meet these needs, the 1967 budget for the SBA assumes that participation sales of \$50 million will be made during the fiscal year ending June 30, 1966. Unless such sales can be made during the next 3 months, or unless funds can be provided otherwise, planned programs will have to be limited to about half the level called for in the President's budget.

Let me contrast the SBA experience with the experience of certain other agencies which have used the participation sales technique.

The Export-Import Bank has, since 1962, sold through participation sales about \$1.7 billion of its loans which might not have been marketable at all otherwise. The Federal National Mortgage Association, under authority granted by the Housing Act of 1964 to serve as trustee in such transactions, has sold about \$1.6 billion of participation certificates in pools of home mortgage loans made by the Federal Housing Administration and by the Veterans' Administration.

The contrast is clear. The purpose of the participation sales bill is to extend the use of the technique employed so

successfully by Fannie Mae and by the Export-Import Bank to other Federal agencies operating credit programs in order to avoid the sort of situation which the Small Business Administration faced.

The participation sales technique is not new. Nor was it really new when the Export-Import Bank and Fannie Mae started using it. The process of pooling risks to convert loan instruments of limited marketability into more attractive investments with broad marketability is simply an application of the basic technique employed by most of our large financing institutions.

The participation sales technique is the best way available to us to broaden our program of asset sales, to mobilize the resources of the private market in support of our lending programs to the greatest extent feasible, and to reduce the portfolio of direct loans held by Government agencies.

This technique, as embodied in the participation sales bill, preserves all existing congressional controls over the lending programs and specifically extends congressional control to the pooling of assets for sale, through the appropriations process.

The legislation maintains effective limits on the lending operations of the administration while enabling the administration to do what is needed—to transfer more Government holdings into private hands.

The bill will have a beneficial effect on the private market because it will help to make the market stronger, more competitive, and better able to serve the economy's needs over the long term. This is the effect of employing a better technique to implement the principle we have espoused for many years, which is that public credit should supplement rather than substitute for private credit.

Participation sales are also best in the cost aspect. You will hear—and the administration has acknowledged—that participation certificates will sell for one-quarter to three-eighths of 1 percent more than Treasury securities. You may be told that this differential means they are an expensive way of selling assets. But to compare these certificates with Treasuries implies that further borrowing through the Treasury is an acceptable alternative to asset sales. That, I am sure, is not the case. We should compare the cost to the Government of selling participations with the cost of selling assets directly. Because of the limited market of much of the loan paper and the broad marketability of the participation certificates, the participation technique results in a lower cost to the Government.

But the best argument in favor of this legislation is that it has been proved sound by experience. The success of the Export-Import Bank and Fannie Mae in selling participations shows that the technique can be extended to other agencies. It shows that holdings of direct loans which have only limited marketability at best can be converted into assets which have broad market appeal and high salability. In short, the best argument for the bill is that we know the principle embodied in it works. That is why it has my support.

Mr. BYRNES of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. The gentleman has mentioned—I did not count the number of times—but I am sure everybody recognized the constant emphasis whereas that this was a sale. Frankly, I do not think if the Congress calls a dandelion a rose that that is going to be anything more than a dandelion.

Now I would like to have the gentleman tell me how he can have a sale where there is no title that passes where the Government in this instance still services the paper or the mortgage that it purportedly sold and where the Government still assumes the risks of whether that paper or that mortgage is good or not. But where is the element of a sale?

I think the gentleman is right that these agencies have used it, as I said was the situation—the agencies use it as a means of borrowing more money so that they can make more loans. That is what Fanny May has done and that is what is proposed to be done by small business. But that is not a fiscal operation nor a sale.

Mr. MILLS. My friend, the gentleman from Wisconsin, goes back to the point of the direct sale. As I said, direct sales of these assets have been going on since the middle of the 1950's. They are still going on. The point is that through direct sale of Government assets, we are not cutting down our portfolio to the extent that we should. Here is a device that we can use in supplementation of direct sale of Government assets to give broader salability and broader marketability to assets that we cannot so dispose or in direct sales. I take it that this is not in replacement of direct sales by any means, but would be used to supplement a continued effort to bring about all the direct sales possible. But where direct sales are impossible, are we going to ask the taxpayers to continue to let us immobilize, if you may, \$33 billion, or even more, of their money in the future when there is a market in private hands, through private sources, to relieve that load? That money may be used by Government, but if it is not used by the Government, I fear—and I know that my friend from Wisconsin fears—that we may be back at the taxpayers asking them for another bite at their pocketbooks.

Mr. BYRNES of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. If the gentleman would only call it financing or call it refinancing, we might be able to debate this on a sound basis. But you call it a sale and it is not a sale and it cannot be.

Mr. MILLS. I have not misrepresented, my friend. This is a sale of certificates of interest.

Mr. BYRNES of Wisconsin. You have, too, because you are calling something a sale that is not a sale, and the gentleman is too good a lawyer to know that this is not a sale.

Mr. MILLS. My friend, the gentleman from Wisconsin, very well understands the term "participation sale," because he has seen the use of the same device by private lending institutions. It is now used. We know that.

Mr. MULTER. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I am glad to yield to the gentleman from New York.

Mr. MULTER. The gentleman from Wisconsin is attempting to confuse the point. What we are doing here is not selling complete instruments or mortgages. We are selling a participation interest, an undivided interest. This is the traditional way of selling a part of a big mortgage or a big obligation, whether it be a bond or otherwise. You sell a participation interest. It is an undivided interest.

Mr. MILLS. And that is what I say our financial institutions have been doing over the years.

Mr. Speaker, I yield back the balance of my time.

Mr. SMITH of California. Mr. Speaker, I yield 5 minutes to the gentleman from New Jersey [Mr. WIDNALL].

Mr. WIDNALL. Mr. Speaker, as the gentleman from Arkansas ended his remarks, I was on my feet wanting to ask him a question. He has made a statement about former sales of participations by the Export-Import Bank and states that what will take place under the bill is supposed to be exactly the same as what has taken place before. Let me read from the new prospectus for the Export-Import Bank advertising the sale of \$500 million 5½ percent participation certificates that are now about to be sold to the public. The last line states:

The proceeds of this issue will be used to retire existing debt of the Export-Import Bank.

That is a very important distinction, which the gentleman from Arkansas failed to recognize when he said that this is exactly similar. There is no subsidy at all in connection with the sale of those participations. They are guaranteeing that the amount received from interest and principal payments from the assets in which they are selling participations will be sufficient to cover necessary interest and principal on the participations, and no taxpayer subsidy will be required.

I should like to pose very seriously the following question to all Members of the House: Who can remember in the history of their own membership in this House that the following groups were together in opposition to a bill: the Americans for Democratic Action, the American Farm Bureau, the Farmers Union, the National Grange, the National Home Builders Association, the two major savings and loan associations and the Mortgage Bankers Association? None of these organizations have had an opportunity to testify. This is really an outrageous situation. We are embarking upon a precedent-making program, something that has never been done before regardless of what has been said, a program the like of which we have never acted upon before, and which can mean a program that will bite into so many other

programs that have been very, very beneficial for the growth of the United States.

I should like to read very briefly from the minority views, and I hope that every Member of the House will read these before voting:

These views are for those who may wonder why a committee of the House of Representatives must report to the House after 3 hours of public testimony a bill whose gestation period in the Bureau of the Budget was at least 3—perhaps as long as 6—months.

These views will try to express the views of those of our citizens and affected industries who were refused access to the witness table by a rigid, uncompromising majority.

These views are for those who defend the right of an accused to adequate defense counsel in court, but who refuse the right of a committee minority to bring forward its witnesses.

These views are for those who snicker at the shallow success of the legislative maxim which states, "When you've got a bad piece of merchandise, wrap it up before anyone can get a good look at it."

These views are for those who express concern over the rising threat of inflation, but would vote for a plan that could remove for all time the fiscal restraint that normally accompanies big budgetary deficits by concealing billions in increased Federal spending outside of the budget.

These views are for those who rant and rave at higher interest costs, yet willingly would raise billions by a far more costly route than Treasury borrowings.

These views are for future generations of Americans and for Members of future Congresses as a reminder of the ways of the "fabulous 89th," when the Congress ceased to be an independent branch of our Government.

These views especially are for those who refuse to read them, for the human mind that is closed to all elements of dissent is to be pitied.

I reiterate, it is just a shame that with major groups, respectable groups, well-known within our country, wanting to air their views and be questioned by Members of Congress, no opportunity was given for that questioning.

The bill was introduced in Congress on April 20. Hearings were called on April 21. There was no notice of any executive session on that day. The executive session was called immediately thereafter, and a vote was taken. I urge defeat of this bill.

Mr. YOUNG. Mr. Speaker, this is a good bill. It is an urgently needed bill. I most earnestly recommend the adoption of the rule.

Mr. Speaker, I have no further requests for time.

I move the previous question.

The previous question was ordered.

The SPEAKER. The question is on the resolution.

The question was taken, and the Speaker announced that the ayes appeared to have it.

Mr. BYRNES of Wisconsin. Mr. Speaker, I object to the vote on the ground that a quorum is not present, and make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

The Doorkeeper will close the doors, the Sergeant at Arms will notify absent Members, and the Clerk will call the roll.

The question was taken; and there were—yeas 184, nays 120, not voting 127, as follows:

[Roll No. 100]

YEAS—184

Addabbo	Griffiths	Patten
Albert	Hagen, Calif.	Pepper
Anderson,	Hamilton	Perkins
Tenn.	Hanley	Philbin
Annunzio	Hanna	Pickle
Ashley	Hansen, Iowa	Powell
Ashmore	Hansen, Wash.	Price
Aspinall	Hardy	Pucinski
Bandstra	Hathaway	Race
Beckworth	Hays	Rees
Bennett	Hébert	Reuss
Bingham	Hechler	Rivers, Alaska
Boggs	Hollifield	Rivers, S.C.
Boland	Hull	Roberts
Brademas	Ichord	Rogers, Colo.
Brooks	Jarman	Rogers, Fla.
Brown, Calif.	Joelson	Rogers, Tex.
Burke	Johnson, Calif.	Ronan
Burton, Calif.	Johnson, Okla.	Rosenthal
Callan	Jones, Ala.	Rostenkowski
Carey	Karsten	Roush
Casey	Karth	Roybal
Cohelan	Kastenmeier	Ryan
Conte	Kee	St Germain
Cooley	Kelly	Secrest
Culver	Keogh	Senner
Davis, Ga.	King, Calif.	Shipley
Dawson	King, Utah	Sikes
Delaney	Kirwan	Sisk
Denton	Kluczynski	Slack
Dingell	Krebs	Smith, Iowa
Donohue	Landrum	Smith, Va.
Dorn	Love	Staggers
Dow	McFall	Steed
Dowdy	McGrath	Stephens
Dyal	McMillan	Stubblefield
Edmondson	Machen	Sweeney
Edwards, Calif.	Mackay	Taylor
Edwards, La.	Mahon	Teague, Tex.
Evans, Colo.	Marsh	Tenzer
Everett	Matsunaga	Thomas
Ewins, Tenn.	Matthews	Thompson, Tex.
Fascell	Miller	Todd
Fisher	Mills	Trimble
Foley	Minish	Tunney
Ford,	Mink	Tuten
William D.	Moeller	Udall
Fountain	Monagan	Van Deerlin
Friedel	Moorhead	Vanik
Fuqua	Morris	Vivian
Gallagher	Morrison	Waggonner
Garmatz	Multer	Walker, N. Mex.
Gathings	Murphy, Ill.	Weltner
Gettys	Murphy, N.Y.	White, Idaho
Gibbons	Natcher	White, Tex.
Gilligan	Nedzi	Whitener
Gonzalez	O'Brien	Wolf
Grabowski	O'Hara, Ill.	Wright
Gray	O'Hara, Mich.	Wylder
Green, Pa.	Olson, Minn.	Yates
Greigg	Ottinger	Young
Grider	Patman	Zablocki

NAYS—120

Abbitt	Callaway	Hicks
Abernethy	Cederberg	Horton
Adair	Chamberlain	Hosmer
Adams	Clancy	Hutchinson
Anderson, Ill.	Clausen,	Hutchinson, Pa.
Andrews,	Don H.	Jonas
George W.	Clawson, Del	Keith
Andrews,	Cleveland	King, N.Y.
Glenn	Collier	Kunkel
Andrews,	Conable	Laird
N. Dak.	Cramer	Langen
Arends	Cunningham	Latta
Ashbrook	Curtin	Lennon
Ayres	Derwinski	Lipscomb
Bates	Devine	Long, Md.
Battin	Dole	McCulloch
Belcher	Dulski	McEwen
Bell	Duncan, Tenn.	Mailliard
Berry	Dwyer	Martin, Nebr.
Betts	Erlenborn	Minshall
Bolling	Fino	Moore
Bolton	Flynt	Morton
Bow	Frelinghuysen	Nelsen
Bray	Fulton, Pa.	O'Konski
Broomfield	Gross	O'Neal, Ga.
Brown, Clar-	Grover	Passman
ence, J., Jr.	Gubser	Pelly
Broyhill, N.C.	Gurney	Pirnie
Broyhill, Va.	Haley	Poff
Buchanan	Hall	Pool
Burton, Utah	Hansen, Idaho	Quie
Byrnes, Wls.	Harsha	Quillen

Redlin
Reid, Ill.
Reifel
Rhodes, Ariz.
Robison
Roudebush
Rumsfeld
Satterfield
Schisler
Schmidhauser

Schneebell
Schwelker
Selden
Skubitz
Smith, Calif.
Smith, N.Y.
Springer
Stafford
Stanton
Talcott

Teague, Calif.
Thomson, Wis.
Tuck
Utt
Whitten
Widnall
Wilson, Bob
Wyatt
Younger

NOT VOTING—127

Baring	Giaino	Morse
Barrett	Gilbert	Mosher
Blatnik	Goodell	Moss
Brock	Green, Oreg.	Murray
Burleson	Hagan, Ga.	Nix
Byrne, Pa.	Halleck	Olsen, Mont.
Cabell	Halpern	O'Neill, Mass.
Cahill	Harvey, Ind.	Pike
Cameron	Harvey, Mich.	Poage
Carter	Hawkins	Purcell
Celler	Helstoski	Randall
Chelf	Henderson	Reid, N.Y.
Clark	Herlong	Reinecke
Clevenger	Holland	Resnick
Colmer	Howard	Rhodes, Pa.
Conyers	Hungate	Rodino
Corbett	Huot	Roncalio
Corman	Irwin	Rooney, N.Y.
Craley	Jacobs	Rooney, Pa.
Curtis	Jennings	St. Onge
Daddario	Jones, Mo.	Saylor
Dague	Jones, N.C.	Scheuer
Daniels	Kornegay	Scott
Davis, Wls.	Kupferman	Shriver
de la Garza	Leggett	Sickles
Dent	Long, La.	Stalbaum
Dickinson	McCarthy	Stratton
Diggs	McClory	Sullivan
Downing	McDade	Thompson, N.J.
Duncan, Oreg.	McDowell	Toll
Edwards, Ala.	McVicker	Tupper
Ellsworth	Macdonald	Ullman
Fallon	MacGregor	Vigorito
Farbstein	Mackie	Walker, Miss.
Farnsley	Madden	Watkins
Farnum	Martin, Ala.	Watson
Felghan	Martin, Mass.	Watts
Findley	Mathias	Whalley
Flood	May	Williams
Fogarty	Meeds	Willis
Ford, Gerald R.	Michel	Wilson,
Fraser	Mize	Charles H.
Fulton, Tenn.	Morgan	

The resolution was agreed to.

The Clerk announced the following pairs:

Mr. Rooney of New York with Mr. Relnecke.
Mr. Morgan with Mr. Gerald R. Ford.
Mr. Madden with Mr. Goodell.
Mr. Kornegay with Mr. Martin of Massachusetts.
Mr. Thompson of New Jersey with Mr. Cahill.
Mr. Daddario with Mr. Findley.
Mr. Burleson with Mrs. May.
Mr. Henderson with Mr. Brock.
Mr. Daniels with Mr. Harvey of Michigan.
Mr. Felghan with Mr. Halleck.
Mr. Glaimo with Mr. Corbett.
Mr. Gilbert with Mr. Whalley.
Mr. Moss with Mr. Carter.
Mr. Macdonald with Mr. Morse of Massachusetts.
Mr. Farbstein with Mr. Saylor.
Mr. Dent with Mr. MacGregor.
Mr. Howard with Mr. McDade.
Mr. Jennings with Mr. Edwards of Alabama.
Mr. Barrett with Mr. Davis of Wisconsin.
Mr. Rhodes of Pennsylvania with Mr. Watson.
Mr. Byrne of Pennsylvania with Mr. Mosher.
Mr. Fogarty with Mr. Michel.
Mr. Celler with Mr. McClory.
Mr. Clark with Mr. Halpern.
Mr. Randall with Mr. Curtis.
Mr. Ullman with Mr. Shriver.
Mr. Fallon with Mr. Watkins.
Mrs. Sullivan with Mr. Reid of New York.
Mr. O'Neill of Massachusetts with Mr. Mathias.

Mr. Toll with Mr. Mize.
 Mr. St. Onge with Mr. Kupferman.
 Mr. Rodino with Mr. Dague.
 Mr. Sickles with Mr. Ellsworth.
 Mr. Rooney of Pennsylvania with Mr. Dickinson.
 Mr. Roncallo with Mr. Harvey of Indiana.
 Mr. Blatnik with Mr. Martin of Alabama.
 Mr. Helstoski with Mr. Walker of Mississippi.
 Mr. Meeds with Mr. Tupper.
 Mr. Fulton of Tennessee with Mrs. Green of Oregon.
 Mr. Hagan of Georgia with Mr. Farnum.
 Mr. Flood with Mr. Olsen of Montana.
 Mr. Pike with Mr. McDowell.
 Mr. McCarthy with Mr. Vigorito.
 Mr. Scheuer with Mr. Nix.
 Mr. Downing with Mr. Corman.
 Mr. Duncan of Oregon with Mr. Diggs.
 Mr. Farnsley with Mr. Fraser.
 Mr. Leggett with Mr. Conyers.
 Mr. Colmer with Mr. Chelf.
 Mr. Cabell with Mr. Cameron.
 Mr. Irwin with Mr. Baring.
 Mr. Huot with Mr. Hawkins.
 Mr. Hungate with Mr. Holland.
 Mr. Long of Louisiana with Mr. Resnick.
 Mr. Purcell with Charles H. Wilson.
 Mr. Stratton with Mr. Williams.
 Mr. Watts with Mr. Scott.
 Mr. Stalbaum with Mr. Jones of North Carolina.
 Mr. Jacobs with Mr. Herlong.
 Mr. Clevenger with Mr. Craley.
 Mr. Willis with Mr. McVicker.
 Mr. Mackie with Mr. de la Garza.

The result of the vote was announced as above recorded.

The doors were opened.

A motion to reconsider was laid on the table.

SALE OF PARTICIPATIONS IN GOVERNMENT AGENCY LOAN POOLS

Mr. PATMAN. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

The SPEAKER. The question is on the motion offered by the gentleman from Texas.

The motion was agreed to.

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill H.R. 14544, with Mr. KEOGH in the chair.

The Clerk read the title of the bill.

By unanimous consent, the first reading of the bill was dispensed with.

The CHAIRMAN. Under the rule, the gentleman from Texas [Mr. PATMAN] will be recognized for 2 hours, and the gentleman from New Jersey [Mr. WIDNALL] will be recognized for 2 hours.

The Chair recognizes the gentleman from Texas.

Mr. PATMAN. Mr. Chairman, I yield myself 10 minutes.

THE PARTICIPATIONS SALES ACT OF 1966

Mr. Chairman, H.R. 14544 is good, sound, sensible legislation. It seeks to utilize and take the best elements of all methods of financing the needs of our American economy. We all know our American economy benefits immensely

from the fruitful partnership between private and public initiative.

This is most evident in the varied Federal programs to assist and stimulate the flow of private credit into the various sectors of our country.

Mr. Chairman, we have approximately 100 agencies in our Federal Government which make loans or guarantee them. The object of this legislation is to bring more coordination into the field of Government securities sales—directly or through participations. We could go ahead as we are now, and not sell any of these securities or participations in the securities, and in a few years, or in a few decades, the Government of the United States will have more securities in its lock boxes in the Treasury than will be owned by all the commercial banks in the United States of America.

I do not believe that is the way the people of this country want our Government to operate. We do not want it to become a huge bureaucracy in the moneylending business, never feeding any of these securities back into the private sector, but keeping them solely within its grasp.

THE PRIVATE ENTERPRISE WAY

That is not the private enterprise way. The private enterprise way is that when the Government is compelled to go into the business of lending money, the Government should make it possible for the money which has been loaned and securities which have been obtained, to be sold back into the private sector, into the private market.

By this method and procedure we will not arrive at a time in this country when the Federal Government will have more securities in value than all the commercial banks in the United States. That could be possible under existing conditions if these assets of the Government remain frozen. If we were ever to reach that point, then an argument would be made that the commercial banks were serving no social purpose and that therefore the Government should take over the commercial banks.

Thus, in selling participations back to the private sector we are avoiding the possibility of a campaign ever being made in this country to nationalize the banks.

This effort under H.R. 14544 is in the direction of supporting private enterprise and in the direction of preventing a possibility that the banks would be nationalized because the Federal Government might have more of the banking business than the banks themselves.

THE EXPORT-IMPORT AMENDMENT OF 1945 PROVIDED FOR PARTICIPATION SALES

In 1945, during the administration of President Truman, we amended the Export-Import Bank Act. The object of that act, of course, was to help manufacturers and exporters generally to sell goods and merchandise produced in the United States of America to people in foreign countries. In order to do that we expected to extend them loans under reasonable terms and conditions. We provided in that act in 1945, that the Export-Import Bank would have the authority to sell such obligations, either directly or in participation pools, which they had obtained to the private sector, to the private market.

For 21 years that has been the law. It was passed both in the House and in the Senate by a voice vote. There was no objection to it. It has been on the books for 21 years, and the participation sales provision was used first in 1961.

Not only that, my friends, but during the administration of Mr. Eisenhower, the President asked for power to sell Government assets repeatedly—in four different messages to the Congress. During that period of time he asked for this power, but he did not get it, except in one instance. That was to refinance the building of post offices. That act was passed in 1954.

Why was it passed? Mr. Eisenhower thought it was not proper—and many people feel as he did about it—to charge up as current expenses capital expenditures for buildings all over the Nation. He felt we should charge only an amortization payment and the interest rates each year in the budget.

That was in effect for 2 years, but a Democratic Congress came in and the Democrats decided that the terms and conditions were very unreasonable and detrimental to the Government and the general welfare of the people, so it was never renewed. But it was put into effect for 2 years.

HOUSING ACTS OF 1964 AND 1965 APPROVED PARTICIPATION SALES

In 1964 a housing act came up and passed the House. When it passed the Senate a provision was added providing that some of the mortgages obtained by HHFA could be pooled and participation certificates, if you please, sold on those securities. That was in 1964.

HOUSING ACT OF 1964

The Housing Act of 1964, as it emerged from conference, contained a provision from the Senate-passed bill—title VII of the bill—amending the National Housing Act, section 302, permitting FNMA to sell participations in a pool of VA-guaranteed mortgages. This provision was not included in the House-passed version but was accepted in conference and on the House floor. The list attached indicates Republican Members who supported the conference report containing the sale of FNMA participation provision.

On this vote on August 19, 1964, 110 Republicans and 200 Democrats voted to adopt the conference report.

The list referred to follows:

CONFERENCE REPORT—HOUSING ACT OF 1964—HOUSE

REPUBLICANS VOTING FOR THE REPORT

Baldwin, Clausen,¹ Gubser, Mailliard, Martin, Talcott,¹ Teague of California, Wilson of California, Bell, Hosmer, Lipscomb, Brotzman, Chenoweth, Sibal, Cramer, Gurney, Arends, McLoskey, Michel, Reid of Illinois, Springer, Collier, Rumsfeld, Halleck,¹ Bromwell, Avery, Ellsworth, Shriver, Siler, Tupper, Mathias, Morton, Bates, Conte, Keith, Martin, Morse, Broomfield, Cederberg, Griffin, Knox, Meader, Langen, MacGregor, Nelson, Quic, Battin, Cunningham, Cleveland, Wyman, Auchincloss, Cahill, Dwyer,¹ Frelinghuysen, Glen, Osmer, Wallhauser, Widnall,¹ Barry, Goodell, Grover, Horton, King, Ostertag, Reid of New York, Riehlman, Robinson, Wharton, Wydler, Fino,¹ Halpern,¹

Members of the House Banking and Currency Committee.

Lindsay, Broyhill of North Carolina, Jonas, Andrews of North Dakota, Ayres of Ohio, Betts, Bolton of Ohio, Bow, Clancy, Latta, Mosher, Rich, Schenck, Taft,¹ Curtin, Fulton of Pennsylvania, Johnson, Kunkel, McDade,¹ Milliken, Saylor, Schneebell, Schweiker, Weaver, Berry, Reifel, Baker of Tennessee, Burton, Lloyd, Stafford, Broyhill, Horan, Pelly, Stinson, Westland, Moore of West Virginia, O'Konski, Thomson, and Van Pelt.

It discloses that 110 Republicans voted for it and only 41 against it. Two hundred Democrats voted for it and only 29 against it. That is exactly the same deal we have here today. What we are trying to do here today has been passed by both Houses of Congress at different times and has been supported by both Democratic and Republican Members voting for it. While it is true the 1964 act was not unanimously adopted it is significant that, among the Members who voted for it on the minority side, were members of the Banking and Currency Committee. Among those were Mr. CLAWSON, Mr. TALCOTT, Mr. HALLECK—he is not a member of our committee, but he was the former minority leader—Mrs. DWYER, Mr. WIDNALL, Mr. FINO, Mr. HALPERN, Mr. BOW of Ohio, Mr. TAFT of Ohio, and Mr. McDADE. They were among those members of the committee who at that time voted for this very principle. In 1965 it was repeated again in the Housing Act and with a like result.

HOUSING ACT, 1965

The 1965 Housing Act contained a Senate provision extending the sale of participations in a pool of VA and FHA mortgages by FNMA including sale of mortgages bearing a below market interest rate. FNMA would be appropriated funds to make up the amount of the differential—interest cost and administrative expenses—between outlay for the sale of participations at below the market rates and the receipts from the sale of the participations.

On July 27, 1965, the House approved the conference report by a vote of 251 to 168, with 26 Republicans and 225 Democrats voting for the report.

CONFERENCE VOTE—1965 HOUSING ACT—HOUSE

REPUBLICANS VOTING YEA

Bates, Cleveland, Dwyer,¹ Ellsworth, Fino,¹ Fulton of Pennsylvania, Halpern,¹ Horton, Keith, Kunkel, Lindsay, McDade, Mathias, Morse, Mosher, O'Konski, Quillen, Reid of New York, Schweiker, Stafford, Tupper, Watkins, Whalley, Widnall,¹ and Wydler.

So why all this fussing here? Both sides of the aisle have given it support in the past. It has always been considered good. Why is it not good now?

Now let me take up the objections of the Republicans and briefly go over them. I know both sides can probably be accused of being inconsistent on this. Sometimes when the Democrats proposed it, the Republicans opposed it. Sometimes when the Republicans proposed it, the Democrats opposed it. So I guess it is just in order to say that we reserve the right as Members of Congress in dealing with public issues to be

consistently inconsistent on occasion. However, if you will always look at the true facts and evaluate the circumstances, any time you find a Member of Congress who looks as though he is inconsistent, you will find in most cases when you properly evaluate it he was justified, regardless of party, in voting that way.

Mr. GROSS. Mr. Chairman, will the gentleman yield? I would just like to know how I voted so I will know whether I am consistent or inconsistent, if the gentleman will tell me, please.

Mr. PATMAN. Let me get to that a little bit later.

REFUTATION OF THE REPUBLICAN POSITION ON H.R. 14544

I have before me the CONGRESSIONAL RECORD of May 11, page 9831, under the title Participation Sales Act of 1966, a statement by the gentleman from Arizona [Mr. RHODES]. He says:

Mr. Speaker, at the May 10, 1966, meeting of the House Republican policy committee a policy statement, regarding H.R. 14544, the Participation Sales Act of 1966, was adopted.

Mr. RHODES is chairman of the policy committee. I would like to include here the remarks of Mr. RHODES on that. Here is why he says the Republicans are against this. This is a statement by this Republican policy committee:

In rapid succession we have witnessed 5 straight years of Federal budget deficits that have averaged \$6.2 billion.

And so on.

Let us take up the first point first. Who objects to 5 straight years of prosperity? We have had 62 consecutive months of prosperity here in the United States of America. We have had the longest period of economic growth and prosperity that the United States has ever experienced and enjoyed in peacetime history. Does anybody want to say that was not a good thing? It was a good thing. Why should the Republicans come out and criticize it? If it had not been for the Eisenhower administration letting the Federal Reserve have what they call their independence so they could do what they want to do regardless of the wishes of the elected representatives or even of the President of the United States—if President Eisenhower had not done that and if we had kept interest rates as they were when Mr. Eisenhower came in and the Republican Party came in—then today our national debt would be substantially lower and we would have saved \$60 billion in extra interest alone.

THE PARTICIPATION SALES BILL WOULD NOT BE NECESSARY IF THE LAST REPUBLICAN ADMINISTRATION HAD PROTECTED THE COUNTRY AGAINST RUNAWAY INTEREST RATES

When the Eisenhower administration took office in 1953, the interest charges on the national debt stood at \$5.8 billion. With the Eisenhower administration working hand-in-glove with the Federal Reserve Board, interest rates skyrocketed and, as a result, we will be paying \$12.750 billion in interest in the next fiscal year.

If the interest had been kept at the 1952 level of the Truman administra-

tion, we would be paying only \$6.6 billion annually on the national debt instead of the \$12.750 billion. In other words, we would have a budget surplus of \$4 billion and there would be no need for the participation sales bill.

THE EISENHOWER ADMINISTRATION, WORKING BEHIND THE SCENES WITH THE FEDERAL RESERVE BOARD, OPENED THE FLOODGATES TO HIGH INTEREST RATES

The policies adopted by the Eisenhower administration and the Federal Reserve Board during the 1950's are the real reasons that the participation certificates will be sold at yields above 5 percent.

For example—when the Truman administration left office in 1952, the computed annual interest rate on the public debt—that is all marketable issues—stood at about 2 percent. Eight years later, when the Eisenhower administration departed from Washington, this same interest rate had skyrocketed to 3½ percent.

THE REPUBLICANS, INCLUDING MANY ON THIS FLOOR TODAY, DID NOT RAISE A SINGLE VOICE OF PROTEST, WHEN THE EISENHOWER ADMINISTRATION ADOPTED A RUN-AWAY, HIGH INTEREST RATE POLICY IN THE 1950'S

The Republican leadership watched while yields on long-term Government bonds rose from 2.68 percent in 1952 to 4.02 percent in 1960.

Where was the Republican concern when the Eisenhower administration, year after year, increased the cost of financing public expenditures?

FROM 1939 THROUGH 1951—THE YEARS OF THE ROOSEVELT AND TRUMAN ADMINISTRATION—THE YIELD ON LONG-TERM GOVERNMENT BONDS NEVER DID RISE ABOVE 2½ PERCENT

On the other hand, during the 8 years of the Eisenhower administration, yields on long-term Government securities were never below 2½ percent and were between 3 and 4 percent in 5 of the 8 years. When Eisenhower left office in 1960, the yield was 4.02 percent on long-term Government bonds.

HIGH INTEREST COSTS ADD TO NEED FOR PARTICIPATING SALES

High interest costs imposed by the Federal Reserve action of December 6, added \$750 million to the fiscal 1967 budget. This is the added cost of financing the national debt. This additional \$750 million, added by one directive of the Federal Reserve Board, brings the total annual interest cost on the national debt to almost \$13 billion.

HIGH INTEREST RATES ARE CAUSED BY THE FEDERAL RESERVE BOARD AND NOT BY THE PARTICIPATION SALES BILL

The Federal Reserve Board raised interest rates 37½ percent in December, nearly 5 months before the President sent the participation sales bill to the Congress.

The Republicans lauded the Federal Reserve action of December 6 and approved of the higher interest rates.

The Republicans suddenly discovered the interest rate issue on April 20—the date the participation sales bill was introduced.

Mr. Chairman, these interest rates went up tremendously, tremendously. That is the cause of our problems with reference to deficits.

¹ Members of the House Banking and Currency Committee.

Mr. Chairman, had we had a capital budget like former President Eisenhower indicated, there would not have been a year within my memory—and I have been here a long time—that we would not have had a surplus instead of a deficit—that is, if we had had a capital budget and not charged all of our expenditures against current revenue.

Mr. Chairman, I do not think the Republicans have a leg to stand on when they criticize our 62 months of great prosperity. Why do they want to change it? Why do they not help us continue it?

LIMITATION OF SALES TO \$10.9 BILLION AND NOT \$33 BILLION

Now, in this Republican statement, it says that under the provisions of this bill—

The Johnson-Humphrey administration will be given authority to establish a whole system of backdoor deficit financing.

Mr. Chairman, that is not true. The American bankers thought the same thing. When we put the provision in the bill, which we expected to do all the time—to have the Committee on Appropriations pass on these matters, they could even pass upon the terms, the interest rates if they wanted to with reference to these participations—then the American Bankers Association sent a telegram which said in effect we are no longer—listen now; this is the American Bankers Association—we are no longer opposed to this bill, because there is no backdoor financing.

Therefore, the criticism and censure uttered by the Republican Policy Committee is absolutely unfounded and unjustified.

Furthermore, Mr. Chairman, let me say that under the proposed bill for participation sales, as originally introduced, FNMA could sell participations in a pool of Government-held financial assets or loans which could possibly have totaled \$33 billion. However, this was never contemplated and is not the case at this moment. I refer the Members of the House to page 426 of the fiscal 1967 budget that clearly spell it out.

PRIVATE PARTICIPATION IN FEDERAL CREDIT PROGRAMS

(For additional details, see Special Analysis E in separate volume, "Special Analyses of the United States Budget," 1967.)

Despite the number and variety of major Federal credit programs, they directly affect only a small fraction of the total volume of credit, both public and private. Of the estimated private debt of \$853 billion outstanding on June 30, 1965, direct Government loans and guarantees of private loans to domestic private borrowers accounted for about 11%. Federal guarantees or insurance of private loans were responsible for most of the Federal assistance.

In recent years, and especially during the past year, emphasis has been placed upon obtaining private participation in public credit programs wherever consistent with achievement of the purposes of such programs. Numerous methods are being employed to make this policy effective, including: (a) limitation of direct lending to cases where borrowers cannot otherwise obtain the funds on reasonable terms; (b) liberalization in lending authority of private institutions; (c) expanded use of Government guarantees and insurance of private loans as an alternative to direct loans; and (d) increased sales of Government loans to private lenders.

Direct sales and participation sales of loans by Federal credit programs

[In millions of dollars]

Agency or program	1965 actual		1966 estimate		1967 estimate	
	Direct sales	Participation sales	Direct sales	Participation sales	Direct sales	Participation sales
Department of Agriculture: Farmers Home Administration.....	35	-----	40	-----	15	¹ 600
Department of Health, Education, and Welfare: Office of Education.....	-----	-----	-----	-----	-----	¹ 100
Department of Housing and Urban Development: Federal National Mortgage Association.....	264	200	182	485	49	² 520
Federal Housing Administration.....	6	-----	15	-----	65	-----
Public housing program.....	4	-----	-----	-----	-----	-----
College housing loans.....	12	-----	5	-----	5	¹ 820
Public facility loans.....	11	-----	5	-----	5	¹ 80
Veterans Administration: Direct loan revolving fund.....	61	93	60	625	80	154
Loan guarantee revolving fund.....	266	7	260	200	290	106
Export-Import Bank of Washington.....	124	450	60	975	25	975
Small Business Administration.....	31	-----	45	¹ 350	-----	¹ 850
Total, by type of sale.....	814	750	672	2,635	534	4,205
Grand total.....	1,564	-----	3,307	-----	4,739	-----
Present programs.....	1,564	-----	2,957	-----	1,889	-----
Proposed legislation.....	-----	-----	350	-----	2,850	-----

¹ Under proposed legislation.

² Includes \$400,000,000 under proposed legislation.

Legislation is being proposed to authorize a Government-wide program for the sale of participations in outstanding direct loans. Under the expanded program, the Federal National Mortgage Association, as trustee, will continue to administer the pools of loans set aside by the Veterans Administration and by its own special assistance and management and liquidating programs. It will also administer and sell certificates of participation in pools of loans set aside by the Farmers Home Administration, the Office of Education, the Small Business Administration, and the college housing and public facility loan programs of the Department of Housing and Urban Development.

The program authorized by this legislation will use many of the techniques successfully employed in earlier sales of participations by the Export-Import Bank and the Federal National Mortgage Association. In addition, new provisions will make it possible for the first time to include in the pools many loans which bear interest rates below current market levels. The agencies pooling such loans will be authorized to make supplementary payments to the trustee, which, together with the interest on the loans in the pools, will assure a level of return adequate to attract private investment.

Largely as a result of this proposed legislation, sales of financial assets are expected to increase from the \$1.6 billion actually consummated in 1965 to \$3.3 billion in 1966 and \$54.7 billion in 1967. These figures exclude sales made as part of the usual process of guaranteeing or insuring loans, and sales from one Government agency to another, as well as regular amortization and prepayments of principal.

Of the total sales anticipated in 1967, \$4,205 million will be accomplished through sales of participations and \$534 million from direct sales of individual loans. The timing of sales and the specific assets to be sold are subject to variation depending upon market developments and shifts in the inventory of available assets.

However, nevertheless this technical question will be met and will be restricted by amendment.

Mr. Chairman, after we conferred with the Rules Committee and we told them we did not want all of this \$33 billion authority in the bill, they said, "Well, get up an amendment to say that." We got up an amendment and it will be offered on the floor. This amendment

will restrict these participations to \$10.9 billion only. I do not believe many people object to that. We specify the agencies that may place their assets in the pool. Now, furthermore, the Republicans charge—and I am reading now from their policy statement—the following:

If the \$4.2 billion participation sales authorized by this bill are not made, the budget deficit will be \$6 billion.

Are the Republicans saying, "Now, please, vote this bill down; we want the deficit just as high as we can get it; we want a \$6 billion deficit; if you do not vote it down, the Democrats will get by with a deficit of \$1.8 billion."

In other words, Mr. Chairman, they are saying, "Let us make it hard on our country." They do not intend it to be that way. I know that. But in effect they are implying and in effect they are saying, "Let us make it hard on our country by having the deficit just as big as we can; the bigger the deficit, the more it will help the Republican Party." They can say that, but that is not a very good thing to do. We should not have politics in things like this. They are absolutely wrong in clamoring for higher deficits, when that is unnecessary. It will hurt and not help our country. They are in a very bad position on that score.

Now, with reference to foreign loans, the policy statement refers to the Agency for International Development and to the \$12 billion they have made in loans.

Of course, none of them are involved here—not one of them.

Most of those loans are made at a very low rate of interest. Some of them are made at three-fourths of 1 percent. Why? In order to help people in developing nations to have some hope for the future and something to work for and to have some reason not to engage in wars just because a dictator says they should have a war.

These loans were made to help assure a permanent and lasting peace and that is why we are making these loans at a very low and subsidized rate of interest.

There is not and never was any intention to put them in this participation pool at all.

ADDED COSTS ARE MINOR

Now then as to the costs under the bill, H.R. 14544—it will cost the American taxpayers an additional \$5 million a year for each billion dollars sold. That is the same theory that Mr. Eisenhower had when he was having the post offices built. It is the same theory as the Export-Import Bank. It is the same theory that has applied to all such programs. There is no change here. We are doing exactly what has been done in the past.

Now the Republican policy statement goes on to say:

To date Fannie Mae has sold four issues of participation. Each time they have been sold by the same four big Wall Street investment houses.

Well, what is so wrong about that. Personally, I think FNMA could sell these participations at public auction. They should be sold to the highest bidder. That would be what I would advocate.

Is it so bad if it can't be done in a more efficient way to have some brokers do it?

Well, you ought to look at the Federal Reserve Open Market Committee. They use broker-dealers. They have 20 dealers around them. You can get on top of the Federal Reserve bank in New York and throw a stone and hit each one of these 20 dealers offices.

They are right there around the Federal Reserve bank in New York. They have dealt with them for 50 years—not just for 2 or 3 years. Is that so wrong? If it is, of course, you can compare that with the four dealers here.

Again, I say these participations should be sold under the best conditions possible so as to obtain the best deal for the Government and the people.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman.

Mr. WIDNALL. I think I have heard that story somewhere before.

Mr. PATMAN. I hope you have.

Mr. WIDNALL. What I would like to know is why you think it is better to narrow it down to just four?

Mr. PATMAN. I am for public auction. I am for selling them—like Fannie Mae can sell and often does sell at the lowest possible rate.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield further?

Mr. PATMAN. I yield to the gentleman.

Mr. WIDNALL. Why have you not provided some safeguards in the bill that you have offered to the Congress?

Mr. PATMAN. We do not need it. We leave it to the discretion of the people who are handling it, and when they think it is better to sell them at auction, by negotiation or otherwise—as long as the Federal Government and American people get the best deal. It is entirely up to them and that is the way to leave it. We trust the administrators. That is what we think should be done in this case.

Now, let me raise another point with those against this legislation. I believe it was in 1959 under Mr. Eisenhower's ad-

ministration when it was proposed to swap enough VA-guaranteed 4-percent mortgages for \$311 million of low interest Treasury obligations that were coming due.

If the people holding this \$311 million in Government bonds that were coming due had said, "No, we do not want anything—we want our money." Then the Treasury would have had to go into the market and borrowed \$311 million. That would have increased the budget by that much. It would have increased our national debt by that much. It would have increased the expenses of the Government by that much—\$311 million.

Now we are proposing this participation pooling of Government assets, and we are accused of using a gimmick. If it is, then let it be so called. It is in the public interest. This is the same type of gimmick—if that is the word the Republicans want to use—as that used during Mr. Eisenhower's administration when those VA mortgages were swapped for low interest rate Government securities.

That action by President Eisenhower reduced the national debt in exactly the same way that this bill will reduce the debt. When you vote for this Sales Participation Act of 1966 that we have before us today, you will be reducing the national debt. Certainly this is in the interest of our country.

Furthermore, the national debt does not include all debts—not by any means.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman.

Mr. WIDNALL. Where does it say that in the bill? Where in the bill does it say what you just said?

Mr. PATMAN. It is just a statement of fact. For example, we have \$33 billion of Federal Reserve notes outstanding. They are not a part of the national debt, because they are not interest-bearing obligations of the Federal Government. If the gentleman from New Jersey owned a million dollars worth of Government bonds that came due today, and if he decided not to cash them tomorrow, they would not be carried as part of the national debt. The debt would be reduced by that amount because those bonds are no longer interest-bearing obligations of the Government.

It is only interest-bearing obligations of the Government that are carried in the national debt. That is the reason we do not have to put such a provision in the law. It has always been that way; there has been no change.

This bill is very reasonable. We have many precedents for it. The principle has been approved by Members on both sides of the aisle. Each party has used it to good advantage to help the public interest and the general welfare of all people. I think it should be passed and voted for by everyone. The Republicans should reevaluate their thinking on this measure.

THE QUESTION OF INTEREST RATES NOT GERMANE

The question of interest rates does not enter this debate. The question is whether it is right that we sell these securities through the participation pool

back into the private sector. If it is, we must sell them at the rate of interest that will cause them to be purchased, whether that rate of interest is low or whether it is high. That question will depend upon the market at that particular time, a question over which the Congress does not have any control. We must make them acceptable to the market at the particular time at which they are sold. Therefore, the question of interest is not involved, except that we have to pay the going rate of interest at the time in order to sell them.

Is it not better to sell these obligations at an interest rate that is even a little higher than that which the Treasury would have to pay—about one-quarter to three-eighths higher in order to maintain our free enterprise economy?

H.R. 14544 SHOULD PASS UNANIMOUSLY

I suggest that the bill should be passed unanimously in the interest of the entire country, in the interest of the private enterprise system, the small business people of the country, the people who want and deserve decent housing, and the small communities that are clamoring for facilities loans for water and for sewers, the farmers and all groups in the United States. They are all involved in this bill.

You know you are going to vote for big cities. You know that. Why not vote for the little towns? If you vote against this bill, you vote against the little towns, you vote against the farmers, and you vote against the small businessmen.

A vote against the participation sales bill is a vote to strangle these programs: The Farmers Home Administration, college housing, Veterans' Administration loans, Small Business Administration loans, Export-Import Bank, soil and water loans, and all of the various housing programs.

A vote for the participation sales bill is a vote to provide adequate funds for these needed programs already voted by the Congress.

So I ask you Republicans to reevaluate your position on this measure and see if you do not want to vote "aye."

ANSWER TO REPUBLICAN CHARGES OF RAILROAD-ING AND LACK OF HEARINGS

Mr. Chairman, throughout this debate we have heard charges by our colleagues on the other side of the aisle that the Sales Participation Act was rushed through the Banking and Currency Committee without adequate hearings and that Republican members of the committee were not given advance notice as to when the committee was planning to vote on the bill.

It has further been charged by our Republican friends that this legislation is of such importance that more hearings are needed. These charges cannot be substantiated.

To prove my point, I call attention to the hearings on H.R. 14544 before the Banking and Currency Committee. In my opening statement, I said:

May I express the hope that we stay in session on this bill today and tomorrow, if necessary, until we get the bill passed on. The House will be in session at noon for a short time. I do not think it will be long,

but I would like to have the Committee come back if we do not get back by noon, and it does not look too good that we will, we should come after the House has recessed in the afternoon and stay in session until we get the bill passed on this afternoon if we can. If not, meet tomorrow morning at 10 and stay until such time as is necessary. I am expressing that as a hope.

A short time later during the hearings, I made the statement:

I want to express the hope that we resolve this thing before we conclude today.

Mr. Chairman, I repeat that these remarks were made at the outset of our hearings. It is on the record and crystal clear that there was a strong possibility that a vote would be taken on the measure in the afternoon session following conclusion of testimony from the witnesses. Although the Republicans have charged that full hearings were not held on the bill, it must be noted that when the April 21 afternoon session of the committee was called to order for the continuation of H.R. 14544 testimony, only four Republican members were present. And when the committee voted to report the measure, only three Republicans were present. I submit to this body that the Republicans did not consider this legislation important enough to attend the hearings on the matter and when a rollcall vote was taken, less than one-fourth of the Republican membership of the committee was on hand to vote for this important matter. I ask my Republican colleagues on the committee: If you feel that adequate hearings were not held on this legislation, why was your party not better represented during the sessions that were held on the bill?

I must point out that one of the loudest critics of this legislation, the gentleman from Tennessee [Mr. Brock], was among those missing during the afternoon testimony on H.R. 14544 and was not present when a vote was taken. At the outset of the hearings, Mr. Brock complained that we had not scheduled enough witnesses for this legislation and indicated that he wanted to be fully informed on the matter before concluding hearings. If the gentleman was sincerely interested in learning exactly what this bill would accomplish, why did he not attend all of the hearing sessions on this legislation?

In addition to the hearings on H.R. 14544, as I have previously mentioned, the committee held four days of hearings on S. 2499, a bill which would allow the Small Business Administration to sell shares in a pool of loans. This legislation is almost identical to the bill before this body today. However, the Republicans once again showed their lack of concern over this legislation by establishing a poor attendance mark for the hearings. On April 1, only five Republicans were present for the hearings; and on April 4, only six Republicans were present. Once again I repeat, if the Republicans were so concerned over this legislation, why did they not attend the hearings and ask questions?

THE PARTICIPATION SALES ACT OF 1966 AND OUR NATIONAL GOALS AND NEEDS

PUBLIC AND PRIVATE CAPITAL IN PARTNERSHIP

The home mortgage insurance and guaranty programs of the Federal Housing Administration and the Veterans' Administration, the many programs of agricultural credit assistance, lending assistance rendered by the Small Business Administration, and more recently the credit aids enjoyed in the college housing program and the student loan program—all these bear witness to our success in using public and private assets to achieve common goals.

Very frequently in this effective partnership arrangement between private and public credit, we have started out with a program that is either wholly or relatively dependent upon Federal lending. Then in time, the program has evolved into a form in which the private sector gradually takes up more and more of the task of providing financing.

Over the years, however, we have devised different means to use the great resources of the private credit market to accomplish the very necessary and highly desirable social goals and purposes which we originally set out to accomplish through direct Government lending programs. When private capital takes up part or all of the burden of a lending program, then the resources of the Federal Government can be and are free to turn to other equally worthwhile purposes. Broadly speaking, this process has been operating ever since we turned to guaranteed and insured loans in place of some of the direct lending programs. We might single out, for example, home ownership, which is not only an individual American aspiration but one of our most widely accepted goals. I do not believe, Mr. Chairman, we could ever have achieved our high degree of home ownership without using the resources of the private market under guaranty and insurance arrangements. This is true for at least three reasons:

First, The capital resources of the private market obviously are far greater than those of the Government; second, we could not have increased the Federal budget, and indeed, few if any of us would have wanted to increase the Federal budget to the degree required to provide the necessary funds through direct Government loans; and third, while Government assistance was required to get the necessary programs under way we needed the ingenuity of the private market in order to carry them out successfully.

Federal credit programs, working through the private market, help to make the market stronger, more competitive and better able to serve the economy's needs over the long run.

H.R. 14544 NOT A RADICAL DEPARTURE

I am sure we will hear charges made today that H.R. 14544, the so-called Participation Sales Act of 1966, is a new and radical departure from traditional methods. This, Mr. Chairman, is not substantiated by the facts. The policy of asset sales has been endorsed by previous

administrations and by a number of private independent commissions and groups which deserve and receive the highest respect in our economy. Others will dwell on this point in greater detail.

THE BASIC PROBLEM

Basically, Mr. Chairman, this is the problem on hand at the moment. Outstanding loans made through Federal credit programs to domestic private borrowers accounted for about \$125 billion out of a total of \$835 billion of private debt outstanding as of mid-1965. Guarantees and insured private loans were responsible for more than \$91 billion of the \$125 billion. Only a little more than \$33 billion was in direct loans.

But this \$33 billion, which will be amended to reduce the amount to \$10.9 billion, Mr. Chairman, and other necessary additional lending under existing Federal credit programs, represents budget expenditures which could be avoided if private capital could be mobilized to take the place of public credit as envisioned under H.R. 14544.

Yet, despite major efforts since 1950 to draw on private credit, the volume of direct Federal loans outstanding has continued to increase. It was \$25.1 billion on June 30, 1961, and \$33.1 billion on June 30, 1965.

Obviously, Mr. Chairman, these loans have direct consequences on the Federal budget—and thus on the policies followed by any administration. Money for lending programs must be budgeted. This means that it must be matched by tax revenue or by additional debt—or it must take the place of some other program which must then be postponed or dropped.

Today we know that competition for available Federal budget dollars is extremely keen—particularly when the whole range of great unsatisfied needs of our society is considered.

The President's state of the Union message of last January has cataloged these needs and his budget has provided a program for meeting them.

It is only necessary to name a few areas—health and education, the elimination of rural and urban poverty, the rebuilding of blighted urban areas, water pollution, air pollution, transportation—to see that future national needs will continue to place pressures on future demands for capital. This future need, together with present programs, makes it essential that we act now to reduce the total amount of loans outstanding by substituting private for Federal credit wherever possible.

This legislation does not authorize any new programs whatsoever or any additional loan funds for existing programs. However, Mr. Chairman, this legislation is of vital concern in assuring local communities, educational institutions, business firms and individuals that loan programs already authorized by the Congress will be properly and adequately funded. Further, this legislation would provide assurances to many others—individuals, communities, and institutions—that future programs to alleviate

their most severe problems would be financially feasible and properly funded.

This bill would enable those who do not have ready access for whatever reason to capital markets to benefit from the most efficient and economical financing techniques which are currently available to large and well-established borrowers. This bill would provide the kind of stability and continuity in program financing which is essential both to orderly and economic planning on the local and individual level and overall financial program planning on the Federal level.

Federal credit programs in such areas as education, agriculture, and small business would be empowered to utilize the same financing techniques that the Congress has previously made available for housing and other programs such as in the Department of Housing and Urban Development through the participation sales authority provided in the Housing Acts of 1964 and 1965.

Some of the most vital credit programs are on a direct loan basis rather than on a guaranteed or insured loan basis. This is due to the fact that such borrowers are either not well established and accomplished in the capital market, or remote from or strange to the source of financing funds, or it has been determined by the Congress and the American people that such programs by their very nature must qualify for a lower interest rate than would be feasible under either private financing or a Federal guaranteed loan program.

These reasons should not interfere with the availability of funds, within the limits prescribed by legislation, but such interference does exist. Needed programs are unjustly penalized by financial arrangements which require them to compete for scarce budget dollars with defense and other essential needs. Substituting private for public credit removes this unnecessary competition.

NECESSARY DIRECT LENDING WILL CONTINUE

For those who have fears that this legislation will spell the beginning of the end of direct Federal lending programs, let me say that with all respect I believe their fear is ungrounded. I do not believe that this administration nor any party in power would ever be in a position to contradict that there is no need for any direct Federal lending programs. Your committee stated in the report on H.R. 14544 as follows:

Your committee wishes to retain, however, the principle that the allocation of credit for essentially private purposes should be a function of the private market. By the same token, this position does not mean to imply that existing or new social and/or economic programs requiring Federal Government sponsorship and/or direct financing should be curtailed or ceased.

Mr. Chairman, the Government's basic contribution in all of these Federal loan programs, guaranteed and direct, is essentially that of assuming a credit risk. When private rather than public credit is used, the guarantee is exactly the same—but the main essential difference is that Federal funds are not tied up

where private loans can be used to do the job.

In order to avoid adding unnecessarily to the budget, and yet to provide sound financing for necessary programs, this bill calls for in effect the substitution of private credit for public credit wherever feasible. This in essence is what the participation sales under this legislation would accomplish. This bill, Mr. Chairman, is not substantive in nature but merely procedural.

THE SALES PARTICIPATION ACT AND INTEREST RATES

Argument has been raised concerning the increased costs in interest rates or yields which will have to be paid under the participation pool procedure as set forth in H.R. 14544 as compared to direct Federal financing. That argument, curiously enough, Mr. Chairman, has been voiced by those who traditionally object to most, if not all, Federal direct lending programs. Perhaps I am engaging in wishful thinking, but I welcome this change of heart, and trust that this support will be forthcoming when legislation is before this body for subsequent funding of existing direct lending programs, and new programs of this nature, when they are before this body.

No one can argue against the fact that the Federal Government can finance its needs at a lower cost than anyone else—either business or individuals. Let me quote from the majority report on H.R. 14544 on this subject:

It has been pointed out on some occasions that the sale of Federal credit program financial assets, whether through participation certificates or other means, is more expensive than financing through the direct issue of Treasury obligations. This is true, although the cost difference has proved to be relatively minor. For example, FNMA participation certificates have been sold at rates roughly one-fourth of one percent above Treasury issues of comparable maturity; and it is entirely possible that the margin may diminish as the market gains experience with these high quality credits.

Moreover, carried to its logical conclusion, this argument would have the Treasury financing directly all of the Federal insurance and guarantee programs, since it can obviously do this more cheaply than the private market. Other types of credit, now handled entirely in the private market, could also be financed more "cheaply" by the U.S. Treasury.

This argument, Mr. Chairman, reducto absurdum, would have the Federal Government, through the U.S. Treasury, financing all activities in our Nation—from business to individual to consumer loans. I do not believe anyone wants this to happen.

But there is another point which must be made on this subject. The minority report accompanying this bill makes much of the argument that H.R. 14544, by establishing participation pools, will end up costing the American people more money. I am sure that the minority party will continue to make much of this point as we debate the bill today. From a short range view, it cannot be denied that there is a small interest rate differential between these participations and direct Treasury financing. But I hope, Mr. Chairman, that we will take a long-

range view and reject any short-sighted play on figures.

MINORITY KEEPS FACTS FROM PUBLIC

The minority party's argument about higher costs through participation sales tells only a small part of the story and keeps the true facts from the public. Viewing the legislation from a longer range, it is highly probable that the interest rate differential between participation sales and direct Treasury issues will soon become minimal, if not nonexistent. This will be true as the participations gain familiarity and acceptance in the money market. But, the minority ignores these facts.

However, I am happy at long last to see so many of my colleagues on the minority side exhibit concern about interest rates. Many times, I have stood on the floor of this Chamber seeking support for efforts to hold down interest rates. I have often sought support for legislation which would curb the excesses of the Federal Reserve Board and its never-ending drive to increase interest rates throughout the economy. Never do I remember my colleagues on the minority side rising in support of these efforts.

Now, the participation sales bill has somehow awakened the slumbering elephant. Yes, my Republican colleagues, I too would like to see these participation sales made at low interest rates. But, it is the Federal Reserve Board, and not this participation sales bill, that has pushed interest rates up to an all-time high.

Not 4 months ago, I stood here and exposed the action taken by the Federal Reserve Board in December 1965, when it raised interest rates by as much as 37½ percent. It is obvious, Mr. Chairman, that if this Congress had not allowed the Federal Reserve to take this action, the rate the Federal Government would have to pay for these participations could well be within the 4¼ percent statutory limit on long-term Treasury securities. However, many of my Republican colleagues supported the Federal Reserve action and said nothing about holding down interest rates.

HIGH INTEREST RATES UNBALANCE BUDGET

Listen to what the President had to say in his budget message for fiscal 1967:

Apart from the special costs of operations in southeast Asia, increases in Federal expenditures for high priority Great Society programs and for unavoidable workload growth have been largely offset by reductions in lower priority programs, management improvements and other measures. As a consequence, total regular administrative budget expenditures—i.e., outside of special Vietnam costs—rise by only \$0.6 billion between 1966 and 1967.

That statement, Mr. Chairman, is on page 9 of the budget for fiscal year 1967. Now, what do we find on page 140 of the budget? This statement is made:

Interest payments on the public debt will rise substantially both for fiscal 1966 and fiscal 1967.

The estimate of interest payments for 1966, Mr. Chairman, is \$12 billion, and for 1967, \$12,750 million. In other words, Mr. Chairman, if we were able to hold interest down to that level prior

to the recent actions by the Federal Reserve Board, we would have affected the administrative budget not by an increase of \$600 million between 1966 and 1967, but by a decrease of \$150 million, comparing again 1966 and 1967.

I welcome the support for low interest rates by members of the minority party, and I trust that this position they are taking on this specific issue will carry forward to other issues regarding interest rates as they occur in the future.

I trust that my colleagues on the minority side have not seized on the issue of interest rates simply as a political gimmick to oppose the administration's participation sales bill.

PROPOSED AMENDMENTS

For the benefit of the Members of the House I include at this point in my remarks the amendments I propose to offer tomorrow on H.R. 14544:

Amendments to be offered by Mr. PATMAN to H.R. 14544 as reported:

Page 2, strike lines 6 through 15 and insert:

"(3) by striking out the words 'offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof' in the first sentence thereof and by inserting 'and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations,' in which any department or agency of the United States listed in section 302(1) (2) of this Act,'";

Page 3, strike lines 3 through 6 and insert:

"(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as provided in this subsection by each of the following departments or agencies:

"(A) The Farmers Home Administration of the Department of Agriculture, but only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949, nor with respect to loans for nonfarm recreational development.

"(B) The Office of Education of the Department of Health, Education, and Welfare, but only with respect to loans for construction of academic facilities.

"(C) The Department of Housing and Urban Development, except that such authority may not be used with respect to secondary market operations of the Federal National Mortgage Association.

"(D) The Veterans' Administration.

"(E) The Export-Import Bank.

"(F) The Small Business Administration. The head of each such department or agency, hereinafter in this"

Page 3, line 20, strike "may" both times it appears and insert "shall".

Page 9, line 25, insert "(a)" immediately after "Sec. 6."

Page 10, insert immediately after line 3:

"(b) After June 30, 1966, no department or agency listed in section 302(c) (2) of the Federal National Mortgage Association Charter Act may sell any obligation held by it except as provided in section 302(c) of that Act, or as approved by the Secretary of the Treasury, except that this prohibition shall not apply to secondary market operations carried on by the Federal National Mortgage Association."

Page 11, immediately after line 16, add the following new section:

"Sec. 9. The Federal National Mortgage Association is authorized during the fiscal year 1966 to sell—

"(1) additional participations in the Government Mortgage Liquidation Trust, and

"(2) participations in a trust to be established by the Small Business Administration, each without regard to the provisions of paragraphs (4) of section 302(c) of the Federal National Mortgage Association Charter Act."

Mr. WIDNALL. Mr. Chairman, I yield myself such time as I may require.

I have now been in the House of Representatives for 17 years. I never thought I would live to see the day when the distinguished chairman of the House Committee on Banking and Currency would stand on the floor of the House and advocate higher interest rates with no ceiling on the interest rates.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Why should the gentleman be concerned about our interest rates when his party—with some exceptions such as the gentleman from New Jersey—has always been for high interest rates? Your party is even referred to as the high interest party because you have such a good record of high interest.

Mr. WIDNALL. Mr. Chairman, I have not yielded, but I have let Mr. PATMAN speak.

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield.

Mr. JONAS. I do not think the party will be referred to in those terms after this bill passes.

Mr. WIDNALL. Mr. Chairman, in view of the fact that the distinguished chairman of our committee has referred to some things that have taken place in the past, I would like to read now an excerpt from the hearings in January 1959, on the Economic Report of the President. I refer to pages 417 and 418:

Representative PATMAN. Now, do you consider it a good thing to sell off assets of the Government for the purpose of balancing the budget? After all, this is selling an asset that the Government owns as if that could in any real sense balance the budget. Do you endorse that as a Government policy, Mr. Secretary?

Secretary ANDERSON. Congressman PATMAN, the act which created the Federal National Mortgage Association provided that we should, to the maximum extent and as rapidly as possible, have private financing substituted for Treasury borrowings that would otherwise be required to carry mortgages.

Now, over the period of the FNMA history, they have sold, as I recall, about a \$1,600 million worth of these mortgages.

Representatives PATMAN. But I am talking about selling \$335 million to apply on the budget. It occurs to me that if you are going to endorse the policy of selling assets of the Government for the purpose of trying to balance the budget, it will possibly lead to the sale of such things as, for instance, Grand Canyon or Yellowstone National Park, or a few acres of the Capitol Grounds.

I don't think we should endorse or be misled by a policy of selling our assets as a device for "balancing" the budget.

Now, I have some questions about that, Mr. Secretary, which I shall not burden you with by reading, but I would like to get your answer to them for the record, if you please.

Pursuant to permission of Representative PATMAN to submit questions in writing to

the Secretary this was done and questions and answers appear on pages 418 to 422 of the hearings.

The following is Question 7 submitted by Representative PATMAN and the answer provided by Secretary Anderson:

7. Q. How will the Treasury's accepting the bonds and their retirement be reflected in the budget accounts?

A. Acceptance of the bonds at par and retirement of the bonds will be reflected in the budget as a receipt item (credited against the expenditures of the agency), just as the purchase of the mortgages was reflected in the budget as an expenditure item.

Confusion is the hallmark of this bill. There is good reason for this. It was steamrollered through our committee with most inadequate hearings and most inadequate consideration in an extremely brief executive session. In the hearings we only had two administration witnesses. No opportunity was afforded organizations opposing the bill to testify. Nevertheless, in the interval since, substantial opposition has developed to the bill. Who is opposed to the bill?

One of the first organizations to go on record against the bill was the Mortgage Bankers Association of America. This Association's representative appeared before the Senate Banking and Currency Committee after having been notified at 9:15 in the morning that he could appear before the committee that day. In his oral testimony, obviously because there was no time to prepare a formal statement on such short notice, the representative of the Mortgage Bankers made four points against the bill. These are:

1. It is more costly than direct Treasury financing.
2. It circumvents the legal prohibition against Treasury borrowing in excess of 4½ percent interest.
3. There is a loss or reduction at least of congressional control over programs.
4. It does not effectively stimulate private investment. It substitutes for it.

The testimony appears on pages 83 to 91 to the Senate hearings.

Another organization to early go on record against the bill was the National Farmers Union. Included in this organization's testimony, which appears on pages 66 to 83 of the Senate hearing, is a letter from the president of the Farmers Union dated April 21, 1966, to the President of the United States. Let me read this letter:

FARMERS UNION,
Washington, D.C., April 21, 1966.
Hon. LYNDON B. JOHNSON,
The President of the United States,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: We are very much concerned about H.R. 14544 which would increase interest rates to farmers already overburdened by excessive interest charges. The Federal Government should lead the way toward decreasing interest rates, not increasing them.

We recognize that you are seeking to avoid a tax increase but feel that a small increase in the Federal deficit or an increase in taxes is preferable to adding one-half of a percent to interest charges which are at an all-time high.

All interest rates will be affected by this proposal to turn over all Government-sponsored programs to private moneylenders. Over the years the cumulative effect in H.R. 14544 will add millions of dollars to the amount consumers of credit will pay. It will

result in increased costs for all consumers since interest charges must be added to the cost of doing business and in turn passed on to the consumer. It will result in decreased farm income since the farmer cannot pass on his costs to those who purchase food and fiber.

We respectfully urge that you seek other ways to solve your budgetary problem. We must regrettably oppose this inflationary interest proposal in every way possible.

Respectfully,

TONY T. DECHANT,
President.

As a followup to his testimony in opposition to the bill, the Director of Research for the National Farmers Union, under date of May 6, 1966, has directed a letter to some Members of Congress. I place this letter in the RECORD and Members will note that the Director of Research says of the bill:

It will tighten money in the home mortgage market. This bill is not in the interest of farmers and others who depend on credit.

MAY 6, 1966.

DEAR CONGRESSMAN: The National Farmers Union, the National Grange and the AFL-CIO are opposed to the enactment of the proposed Participation Sales Act of 1966. HR 14544 will bring about an increase in interest rates. It will short circuit the local banker under the Farmers Home Administration Program and turn over farmers loan paper to the National Mortgage Association which deals primarily with Eastern bankers and institutional investors.

Where interest ceilings exist it will increase the cost to the taxpayer while lining the pockets of the big city bankers. It will cause an increase in money cost on all loans not covered by ceilings. It will increase pressure to do away with or raise interest ceilings. It will tighten money in the home mortgage market. This bill is not in the interest of farmers and others who depend on credit.

The Grange is opposed to the proposed Participation Sales Act of 1966 and was dismayed to learn that no opposition witnesses were permitted to present testimony before the House Banking and Currency Committee despite a telephone call and letter requesting to be heard.

The AFL-CIO says, "To add something like \$3 billion of Participation Certificates in this kind of market would add to the tightening of the money market and to the high and rising trend of interest rates. The higher level of interest rates would affect all borrowers—particularly small business, farmers and consumers, who are already saddled by high interest rates. The public-at-large, therefore, would be affected indirectly by the higher level of interest rates generally in the market. And, it would be affected directly by the increased cost to the government—the difference between the low interest rates the government receives on its loans and the high interest rates it pays on the certificates."

We urge you to use your influence to bring about the defeat of this legislation.

Sincerely yours,

ANGUS McDONALD,
Director of Research.

Mr. JONAS. Mr. Chairman, I make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will count. [After counting.] Seventy-four Members are present, not a quorum.

The Clerk will call the roll.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 101]

Anderson, Tenn.	Frelinghuysen	Moore
Ashbrook	Friedel	Morgan
Baring	Fulton, Pa.	Morse
Barrett	Fulton, Tenn.	Mosher
Blatnik	Garmatz	Moss
Bolton	Glialmo	Nix
Brademas	Gilbert	O'Brien
Brock	Goodell	Olsen, Mont.
Broomfield	Gray	O'Neill, Mass.
Burleson	Green, Oreg.	Poage
Byrnc, Pa.	Halleck	Powell
Cabell	Halpern	Price
Cahill	Hansen, Idaho	Purcell
Cameron	Hansen, Wash.	Randall
Carter	Hardy	Reid, N.Y.
Cederberg	Harvey, Ind.	Reinecke
Chelf	Harvey, Mich.	Resnick
Clancy	Hawkins	Rhodes, Pa.
Clark	Helstoski	Rivers, Alaska
Clevenger	Henderson	Roberts
Colmer	Herlong	Rodino
Conte	Holland	Roncalio
Conyers	Howard	Rooney, N.Y.
Corbett	Hungate	Rooney, Pa.
Corman	Huot	St. Onge
Craley	Irwin	Saylor
Curtis	Jacobs	Scheuer
Daddario	Jennings	Scott
Dague	Jones, Mo.	Shipley
Daniels	Jones, N.C.	Shriver
Davis, Wis.	Kelly	Sickles
de la Garza	King, Calif.	Sisk
Dent	King, N.Y.	Slack
Denton	Kirwan	Smith, Calif.
Dickinson	Kluczynski	Smith, Va.
Diggs	Kupferman	Stalbaum
Dorn	Latta	Stratton
Dow	Leggett	Sullivan
Downing	Long, La.	Sweeney
Duncan, Oreg.	McCarthy	Teague, Calif.
Edwards, Ala.	McClory	Thompson, N.J.
Edwards, Calif.	McDade	Thompson, Tex.
Edwards, La.	McDowell	Toll
Ellsworth	McEwen	Tunney
Erlenborn	McMillan	Tupper
Evans, Colo.	McVicker	Ullman
Evins, Tenn.	Maconald	Vigorito
Fallon	MacGregor	Walker, Miss.
Farbstein	Mackie	Watkins
Farnsley	Madden	Watson
Farnum	Martin, Ala.	Whalley
Feighan	Martin, Mass.	Whitten
Findley	Mathias	Williams
Flood	Matsunaga	Willis
Fogarty	May	Wilson, Bob
Ford	Meeds	Wilson,
Gerald R.	Michel	Charles H.
Fraser	Miller	Yates
	Mize	

Accordingly, the Committee rose; and the Speaker having resumed the chair [Mr. KEOGH], Chairman of the Committee of the Whole House on the State of the Union reported that that Committee, having had under consideration the bill H.R. 14544, and finding itself without a quorum, he had directed the roll to be called, when 258 Members responded to their names, a quorum, and he submitted herewith the names of the absentees to spread upon the Journal.

The Committee resumed its sitting.

The CHAIRMAN. The gentleman from New Jersey [Mr. WIDNALL] is recognized.

Mr. WIDNALL. Thank you, Mr. Chairman.

At the time the quorum call was instituted, I was referring to a letter I inserted in the RECORD which had been received from the director of research of the Farmers Union.

An interesting point in this letter is that the director of research of the Farmers Union includes a quote from the AFL-CIO expressing opposition to the bill. It is true the president of the AFL-CIO has publicly stated that his organization has no position on the bill. However that may be, I simply do not

believe that the director of research for the National Farmers Union would attempt to mislead the Congress by misquoting an AFL-CIO memorandum. It is clear to me whether that organization has or has not taken an official position, someone in the organization at least has violent opposition to the bill.

A somewhat similar situation exists with the American Bankers Association. On pages 23 and 24 of the Senate hearings is a letter under date of April 26, to the chairman of the Senate Banking and Currency Committee. This letter, which I introduce in the RECORD, expresses very grave reservations about the bill and its probable adverse impact on capital markets.

THE AMERICAN BANKERS ASSOCIATION,

New York, N.Y., April 26, 1966.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency, U.S. Senate, Washington, D.C.

DEAR SENATOR ROBERTSON: The American Bankers Association desires to take this opportunity to express its views on H.R. 14544, a bill to promote private financing of credit needs and to provide for an effective and orderly method of liquidating financial assets held by Federal credit agencies and for other purposes, which we understand will shortly be under consideration by your committee.

Inasmuch as H.R. 14544 has been introduced to carry out a definitive policy decision of the administration, we are not expressing any comments on such policy decision. Nevertheless, we are concerned about certain aspects of the legislation as outlined below.

H.R. 14544 provides a mechanism for financing the Treasury through the issuance of securities by the Federal National Mortgage Association representing beneficial interests or participations in certain loans made by various agencies of the Government. The Government agencies responsible for administering the loan program which will be utilized as a basis for the issuance of participation securities will retain custody, control, and administration of the obligations securing the participation certificates. FNMA will promptly pay to the agencies whose obligations form basis for the issuance of participations the full net proceeds of any sale of such beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds will be dealt with as otherwise provided by law for sales or repayment of such obligations. In most cases, this will make the proceeds available for new loans to the extent authorized under existing programs.

In my letter to you of February 28, 1966, with reference to S. 2499, a bill to amend the Small Business Act to authorize issuance and sale of participation interests based on certain pools of loans held by the Small Business Administration, we expressed our concern about certain implications of that bill which we believe also applies to H.R. 14544. We desire to restate such comments, in part, as follows:

(1) The type of transactions envisaged seems to us to be simply another type of deficit financing, rather than a genuine substitution of private for public credit, but at interest rates higher than is effected in the usual manner through sales of Treasury obligations. Although no serious objection could be made to this alternative type of financing of itself, the higher interest cost that is likely to be incurred should be of concern to both taxpayers and the Congress.

(2) Debt operations of the type authorized in H.R. 14544 bypass the public debt ceiling and the interest rate ceiling on new issues of

Treasury securities with maturities beyond 5 years. Our purpose here is not to defend the arbitrary manner in which these limitations can impinge on budget spending and Treasury debt management. But we do believe strongly that the issue of our relaxation or elimination of these limitations should be confronted directly in the Congress and not bypassed through alternative methods of financing.

In addition, we are concerned with the impact of the implementation of the program contemplated under H.R. 14544 and the demands it will place on the money and capital markets at a time when private demands for funds are active and strong. From the standpoint of timing, such a program could be better implemented at a time when the banking system and long-term investors are actively seeking earning assets because of a limited availability of such in the private sector. The proposed Government agency financing may very well have a considerable rate impact in the market. So long as economic conditions continue expansive and private demands for funds are heavy, the agency financing will exert upward pressure on interest rates. This pressure could be felt in the market for direct Treasury obligations and rate adjustments could take place in that sector. The sheer magnitude of the administration's program—\$3.3 billion in this fiscal year and \$4.7 billion next year—raises the question as to whether all of the Government agency funds can be raised in this time interval.

The Government agencies that have been regular borrowers in the market for many years (such as Federal intermediate credit banks, Federal home loan banks, Federal land banks, FNMA, etc.) have increased their borrowing demands both in terms of magnitude and frequency of borrowing. This borrowing has already become more expensive in relation to direct Treasury obligations and the spread in rates has widened as a consequence. The rate spread could widen further as enlarged Government agency borrowing reaches the market, particularly if this increases the frequency of borrowing operations. On some recent occasions, it has appeared that the Government agencies were competing among themselves for funds and have had to pay a higher rate in the market because of this.

Section 2(b) of H.R. 14544 amends section 302(c) of the Federal National Mortgage Association Charter Act by giving FNMA authority to issue securities under the new program "notwithstanding any other provision of law." We believe it is essential that the authority of the Federal National Mortgage Association to issue securities as contemplated under H.R. 14544 be made subject to the approval of the Secretary of the Treasury in order that such transactions be handled with utmost care so as not to disturb market financial processes more than is absolutely necessary.

Very truly yours,

CHARLES E. WALKER.

A couple of days later, a telegram came to the chairman of the Senate Banking Committee from the American Bankers Association. This is found on page 53 of the Senate hearing. It reads:

Supplementing and clarifying my letter to you of April 26 the American Bankers Association believes that H.R. 14544 with proposed amendments offers adequate congressional safeguards for use of the authority, and we therefore interpose no objection to the passage of the bill.

It is interesting that both the AFL-CIO and the American Bankers Association, in part, contradict themselves in their positions on this bill. This strange behavior seems to suggest the question, "Was pressure applied?"

The legislative director of the American Farm Bureau Federation, in a letter dated May 13, 1966, records the position of his organization against this bill. The concluding paragraph states:

We therefore believe that H.R. 14544 should be defeated or recommitted to permit comprehensive analysis of federal financing procedures by the appropriate committees of the Congress, at which time the views of private organizations and expert opinion in this area could be presented for consideration.

I place this letter in the RECORD:

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., May 13, 1966.
The Honorable WILLIAM B. WIDNALL,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN WIDNALL: This is to record the position of the American Farm Bureau Federation with respect to the Participation Sales Act, H.R. 14544.

The increasing use of a variety of means to provide funds for the expenditures of the federal government is making it more and more difficult to understand the fiscal and budgetary status of the federal government. A major expansion in the type of financing proposed by H.R. 14544 would still further complicate efforts to understand the budgetary situation so far as the general public is concerned.

It appears to us that the widespread use of "participation" certificates will involve a higher rate of interest on such obligations than the rate of interest on Treasury issues, and that this will ultimately be reflected in higher interest rates, either paid by taxpayers, or paid by the beneficiaries of the various programs financed with participation certificates, or both.

The major effects of the bill seem to be that federal expenditures will appear to be less than they actually are, the deficit will appear to be less than it actually is, and the periodic review and control of the Congress with respect to the statutory debt limit will be eliminated.

We do not pretend to understand the full implications of the procedures proposed in H.R. 14544. But they obviously represent a major departure, at least in terms of magnitude, from the financing practices of the federal government in the past. It does not seem to us that the long-run implications are adequately understood. We believe there is need for a comprehensive review by the appropriate committees of the Congress and by private agencies and organizations of the whole question of the manner in which federal loan programs are to be financed, before embarking on a major revision of such financing procedures.

We therefore believe that H.R. 14544 should be defeated or recommitted to permit comprehensive analysis of federal financing procedures by the appropriate committees of the Congress, at which time the views of private organizations and expert opinion in this area could be presented for consideration.

Sincerely yours,

JOHN C. LYNN,
Legislative Director.

P.S.—Similar letters have been sent to Congressmen MILLS, MAHON, LARID, ARENDS, FORD, BYRNES, BOW, POAGE, BELCHER, COOLEY, and BOLLING.

The president of the National Association of Home Builders is against this bill. In a letter under date of May 9, to me, the president of the National Association of Home Builders states:

I believe this is the wrong time and wrong bill to carry out an otherwise worthy objective. As you know, the mortgage market currently is in a chaotic state.

Approval of this bill will introduce an additional upsetting factor that will complicate and confuse further the overall situation.

Such sales that would be permitted by the measure will compete for the rapidly dwindling available supply of long-term residential financing.

NATIONAL ASSOCIATION OF
HOME BUILDERS,
Washington, D.C., May 9, 1966.

The Honorable WILLIAM B. WIDNALL,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN WIDNALL: On behalf of the National Association of Home Builders, I wish to make these comments concerning H.R. 14544, the proposed "Participation Sales Act of 1966", now before the Congress.

This bill would permit the Federal National Mortgage Association as trustee to sell certificates of participation in pools of assets set aside by certain Government agencies. Asset sales in fiscal year 1967 are expected to include sales of participation in assets of the Farmers Home Administration, the Office of Education, the Community Facilities Administration in the Department of Housing and Urban Development, and the Small Business Administration. As a result of the proposed participation sales, the volume of direct Federal loans outstanding would decline from \$33.3 billion to \$31.5 billion on June 30, 1967.

The NAHB Board of Directors has not had an opportunity to take a formal position on H.R. 14544. As a general principle, we would favor the objective of the bill—to maximize the use of private credit to the greatest extent possible. The immediate realization of assets held by the Federal Government and which ordinarily become receipts over a period of years facilitates sound financing for worthwhile programs with a minimum of Federal participation.

However, I believe this is the wrong time and wrong bill to carry out an otherwise worthy objective. As you know, the mortgage market currently is in a chaotic state.

Approval of this bill will introduce an additional upsetting factor that will complicate and confuse further the overall situation.

Such sales that would be permitted by the measure will compete for the rapidly dwindling available supply of long-term residential financing.

FNMA experience indicates that participation certificates will, in all likelihood, bear interest rates higher than obligations of the United States having comparable maturities.

Sales of such participations at a higher interest rate than direct Treasury borrowing could result, therefore, in a further short-term rise in short-term interest rates. This would only add to the distress of the present condition in the home mortgage market.

Sincerely yours,

LARRY BLACKMON, President.

Americans for Democratic Action is another organization opposed to the bill. The organization has sent a fact sheet to some Members of Congress detailing their opposition to the bill. One of the 10 points of their opposition to the bill states in part:

To add something like \$3 billion of participation certificates in this kind of market would add to the tightening of the money market and to the high and rising trend of interest rates. The higher level of interest rates would affect all borrowers—particularly small business, farmers and consumers, who are already saddled by high interest rates.

I place the fact sheet of this organization in the RECORD for the benefit of the Members of this House.

ARGUMENTS AGAINST PARTICIPATION SALES ACT OF 1966

1. The bill would permit the sale to the public of participation certificates—shares in loans by the federal government, such as Export-Import Bank, Farmers Home Administration, college housing and public facilities loans. Sales to the public of these participation certificates, backed by a pooling of government loan paper, would be through FNMA to financial underwriters, at the interest rates in the market. The federal government would continue to hold the assets—the loan paper. The public investor would buy the certificate—a share in the pool of assets. The federal government would continue to receive the interest payments (usually at low interest rates) on the loans. And the government would pay the interest (at the higher interest rates of the market place) on the participation certificates. The cost to the government would be the difference between the low-interest payments it would receive and the high-interest it would pay.

2. This technique is not new. Some individual government agencies have sold such participation certificates in the past few years, backed by the loan paper of the agency. This bill would: 1) expand this program to all forms of government loan paper, as far as can be seen, and 2) would permit the government to sell certificates in large blocks, backed by a pooling of the loan paper of different agencies.

3. The federal budget estimates is that \$2.6 billion of participation certificates would be sold in fiscal 1966 and \$4.2 billion in fiscal 1967. However, under existing legislation only a part of these quotas can be fulfilled. It is claimed that the full-scale expansion of this program is necessary to meet these quotas—to sell about \$350 million of additional certificates before June 30, 1966 and about \$2.9 billion of additional certificates in fiscal 1967, more than would be permitted under existing legislation. Actually, through full-scale expansion of the program, this bill would permit the sale of much greater amounts of participation certificates than indicated by these official estimates; the federal government holds about \$33 billion of direct loans outstanding.

4. It is claimed that this technique substitutes private credit for public credit. This is a specious argument. There is no sale of government assets under this program. The federal government continues to hold and service the loan paper and to receive interest payments on those loans. All the government does is to raise additional money—which does not show up in the budget—by selling participation certificates (shares in the loans without a transfer of ownership); and the federal government pays the interest on these participation certificates.

5. This technique is a way of getting around the statutory 4¼ percent ceiling on long-term Treasury securities. Under existing legislation, the Treasury cannot float long-term securities at an interest rate above 4¼ percent. However, there is no interest rate ceiling on participation certificates and the government can sell these certificates at interest rates of 5 percent, 5½ percent, 6 percent or more.

6. Interest rates in the market are now very high—higher than in a generation or more. As a result, interest rates on these participation certificates are also very high. Not only is the money market now tight and interest rates very high, but the outlook in the next several months, at least, is for interest rates in the market to move up to even higher levels.

7. To add something like \$3 billion of participation certificates in this kind of market would add to the tightening of the money market and to the high and rising trend of interest rates. The higher level of interest

rates would affect all borrowers—particularly small business, farmers and consumers, who are already saddled by high interest rates. The public-at-large, therefore, would be affected indirectly by the higher level of interest rates generally in the market. And, it would be affected directly by the increased cost to the government—the difference between the low interest rates the government receives on its loans and the high interest rates it pays on the certificates.

8. Moreover, interest rates on participation certificates, in the coming months, could well move up from a high of 5½ percent in mid-March to a high of 6 percent or more in the coming months. Compare such interest rates on participation certificates—within a range of 5 to 5½ to 6 percent—with the statutory low interest rates on federal direct loans, under federal programs that are aimed at serving the national interest and meeting socially-desirable objectives. Interest rates on such programs are as low as 2 percent on REA loans and 3 percent on college housing loans. I think it is a fair assumption that, on the average, the statutory interest rate on government-guaranteed loans is something like 3 percent to 3½ percent—compared with interest rates on participation certificates at present and in the near future of about 5-5½-6 percent or, perhaps even more. At present, there is a spread of about 2 or 2½ points and this spread is rising.

9. Moreover, the 4¼ percent ceiling on long-term Treasury securities and the statutory low interest rates on direct loans are facing a growing threat. They are already threatened by the tight money and very high interest rates in the market at present. They are further and more directly threatened by the widening spread between the low statutory rates and the interest rates on participation certificates. The entire structure of low-interest rates on direct government loan programs is placed in jeopardy.

10. In addition, operation of the program would tend to tighten an already tight money market and push up interest rates which are already high—affecting all people and businesses that have to borrow money from the banks and other financial institutions.

The recurring theme throughout all of these organization positions in opposition to the bill is that sale of participation certificates in the volume contemplated by the bill will adversely affect an already extremely tight money market and drive interest rates higher.

In short, this is a high interest rate bill. Those who are for high interest rates should support it. Those who are against high interest rates should vote against the bill.

Mr. STANTON. Mr. Chairman, what is in a name? I ask this because when the administration proposed the sale of participations bill they kept saying that we would be replacing public credit with private credit. Certainly this sounds like an admirable undertaking. But is that what is being done? And will the administration's bill achieve the goals of such an undertaking? The answer to these questions is emphatically "No."

First of all, there is no real "sale" under this bill. That is, the purchaser does not acquire possession of anything and likewise he does not have to assume any risk. The pooled assets are not sold, they are merely refinanced in a more costly way because Fannie Mae cannot borrow as cheaply as the U.S. Treasury. The participation sales bill accomplishes

a "sale" by legislative definition only. Therefore, this bill does not substitute private for public credit. The U.S. Government still maintains ownership and assumes the risk of default.

When a harried husband who has overextended himself by buying on credit finds that his monthly payments take up the greater part of his monthly paycheck he is often tempted to "pool" his bills with another loan company and make a so-called one easy payment each month. Often he does not realize that his one easy payment will, of course, cost him more than the many he had before because the new loan company adds their interest charge on top of all the rest. Many of us feel that this is a cheap trick which loan companies play on unsuspecting citizens. However, we now find ourselves in a position where our own Government is playing the same cheap trick on its citizens. In H.R. 14544 the Government is saying we will sell some of our outstanding loans and with the money received we can cut down on the deficit for this year. Of course, what the administration fails to point out is that, like the harried husband, what we wind up with is a greater deficit for the future because we must add the high interest cost of selling the participations to the repayments.

The financing that will be permitted under this bill will cost the taxpayer an additional \$5 million a year on each \$1 billion of participations sold. Thus, in the event \$4.2 billion of participations are sold, there will be a cost to the taxpayer of \$21 million per year. If the average maturity for participations is 10 years, the taxpayer will have to pay \$200 million in extra interest charges. Is this fiscal restraint? Is this sound fiscal responsibility? The answer to these questions, Mr. Chairman, would seem obvious.

The family who has fallen for the one easy payment deception then feels, for a while at any rate, free from debt. Restraint is thrown to the wind and they begin their time payment buying all over again. This, Mr. Chairman, is exactly the effect this bill has already had on the Congress of the United States. We have seen in the past few months bill after bill which has authorized and appropriated moneys in excess of the President's recommendations and budget requests. There is no doubt in my mind but that the Congress has felt free to appropriate greater amounts of money due to the fact that the estimated deficit is only \$1.8 billion. How many of us have stopped to reflect that the deficit this year is actually \$6 billion? Only by anticipating the sale of these participations has the administration been able to present such a relatively small deficit figure. If we knew that the real deficit was \$6 billion instead of \$1.8 billion, would we be so quick to vote in extra sums of money for a variety of new and untried Federal programs? I think not, Mr. Chairman, I think not. This legislation invites a spending spree, not only this year, but in the years to come.

The participation sales program is a device to fool the public on budget expenditures. It is a costly delusion.

Mr. Chairman, there is another area of delusion in this legislation. The Treasury Department, through Mr. Joseph Barr, said that the cost of refinancing these loans is relatively unimportant, since the main aim of the bill "is to get the Government out of the banking business".

Implicit in this argument is the assumption that as sales of participations continue, the Government's portfolio of direct loans will decline commensurately. However, this is subject to question.

Mr. Barr himself pointed out that direct loans eligible to be pooled, currently at \$33 billion, would increase to \$39 billion by the end of the year.

He further stated:

It would not be hard for me to imagine that within 2 years the total will go over \$50 billion, and within a decade, over \$100 billion.

He emphasized that the Government would continue its multisided direct lending program and also that as new lending programs are conceived or invented, these loans also could be made eligible for later pooling.

To "get the Government out of the banking business," as the Treasury says this bill would do, it would necessarily be assumed that the rate of sales of participations each year would increase faster than would the rate of buildup in new direct loans.

This would presuppose, using Mr. Barr's own estimates, that loans eligible for pooling would increase by more than 50 percent within the next 2 years, \$50 billion over \$33 billion, an increase of \$17 billion.

In short, Mr. Chairman, it would appear, assuming the Under Secretary's estimates are reasonably correct, the Government will be much more in the banking business than it is today, and rather than eliminating one form of banking business, it will have in fact two forms.

Today's—May 16—issue of the Weekly Bond Buyer has an article by John Gerrity on the Sales Participation Act that contains some excellent points. Because of its importance I shall read it in full.

WASHINGTON PERSPECTIVE: INVOLVING THE GOVERNMENT DEEPER IN THE BANKING BUSINESS

(By John Gerrity)

WASHINGTON.—Though few members of the House and Senate are fully aware of what they are doing, Congress this week is expected to write an entirely new chapter in American public finance by approving the Administration's scheme to sell \$8 billion of Government "assets" this fiscal year and next.

In giving its approval to the Sales Participation Act of 1966—the legislative title of the bill to permit the substitution of private for public credit—Congress will also unwittingly write out of existence a substantial portion of its control over public spending and the structure of the Federal budget.

On its face, the legislation appears to be harmless enough—even praiseworthy.

It provides for the pooling of direct Government loans to farmers, small businessmen, colleges or veterans, for example, with

the Federal National Mortgage Association which, acting as trustee, will issue a new kind of Government paper called "participations" in the beneficial interest of such pools of loans.

These participations, to be sold directly in the capital markets by Fannie Mae, will carry the going market rate of interest—or in today's terms, something in the range of 5.5 per cent—and will mature in between six and 10 years, with the average maturity of each offering about seven years.

RETURNS TO TREASURY

Proceeds from the sales of these participations to private investors will be returned ultimately to the U.S. Treasury to be credited proportionately to the lending authorization of each of the individual agencies that shared in the pooling of the loans.

While the participations will not carry specifically the "full faith and credit" of the Government, they are in effect guaranteed Government securities, since the legislation gives the Association power to make "indefinite and unlimited" draws on the Treasury to ensure payment of principle and interest.

Because many of the loans that will become part of the future pools were made at below-market rates—some for as little as 3 per cent—the new law provides that Congress will appropriate whatever amounts are necessary to make up the rate differential of pooled loans and the market rate required to make the Fannie Mae participations attractive to investors.

Because the proceeds of participations sales would go into general Treasury funds, the budgetary impact is to reduce the size of the Federal deficit in both years, and for so long as the new sales program is continued.

In short, if the Administration were to fail to reach its target of \$3.3 billion in sales in fiscal 1966 and \$4.7 billion in 1967, the deficits would be \$8.9 billion and \$6.5 billion, rather than \$5.6 billion and \$1.8 billion, respectively, as currently anticipated.

Expressed another way, the sale of participations this year and next is expected to produce \$8 billion, which the Administration would otherwise have to raise either by increased Treasury borrowings of a like amount, or by increasing taxes to produce the same amount.

Theoretically, the new law is merely an extension of a "sale of assets" program first launched by the Eisenhower Administration in 1960, and the bills approved in 1964 and last year permitting Fannie Mae to sell participations in Veterans Administration housing loans—so its backers claim.

MORE THAN EXTENSION

But analysis of the fine print of the new law, coupled with facts disclosed in testimony before the House Rules Committee clearly established that the new program is much more than a "mere extension" of earlier programs and that it differs substantially from anything attempted during the Eisenhower tenure.

In fiscal 1960, the Treasury authorized a Fannie Mae swap of \$311 million of low-interest mortgages it held for \$316 million of non-marketable Treasury bonds held by the public.

This was an actual sale of assets. The mortgages were sold on a competitive bid basis and paid for by bonds held by investors. Actual title to the mortgages passed to the purchasers. Proceeds of the deal were reflected in the budget as receipts.

The bonds acquired by Fannie Mae in the swap were surrendered to the Treasury for cancellation. After taking into account differing maturities, the non-marketable of the bonds acquired in the swap, the discount cost to the Treasury was estimated to be about \$5 million.

But the new program, when labeled a "sale of assets" program is a fiction. The buyers

of participations do not acquire title to the assets pooled. Nor do they even acquire a pro rata interest in those pooled assets. All they acquire is the right to have investments in participations repaid, with interest at the rate stated on the participation certificate.

In short, this is a refinancing scheme, not a sale of assets plan. As a matter of fact, since many of the loans to be pooled may have maturities upward from 20 years and since the average maturity of participations is to be seven years, the identical loans can be repooled and repooled to back repeated offering of new participations.

That there is in fact no actual sale of assets is amply demonstrated in this brief exchange between Treasury Undersecretary Joseph Barr and Rep. DEL CLAWSON, Republican, of California, during hearings before the House Rules Committee:

Mr. CLAWSON. Now I would like to know at this point about the ownership of this instrument and is there actually a passing of title to the private investor in the field?

Mr. BARR. Title does not pass to the private investor. The beneficial interest.

Mr. CLAWSON. What is the sale concept?

Mr. BARR. He is purchasing a beneficial interest in a pool of assets.

Mr. CLAWSON. Without passage of title?

Mr. BARR. That is correct.

Mr. CLAWSON. That is a beneficial interest in what, the FNMA or their power to borrow from the Treasury or what?

Mr. BARR. It is a beneficial interest in a group of assets. It might be college housing, might be mortgages, Small Business Administration loans. It is a pool of assets guaranteed by the agency and backed up by the appropriation of Congress.

Mr. CLAWSON. And backed up by the Treasury, of course, eventually, is it not?

Mr. BARR. Backed up in the ultimate by the Congress, Sir. The Treasury is nothing but the authority of Congress.

Mr. CLAWSON. The investor would interpret that the Federal Government is backing this?

Mr. BARR. That is correct.

It is the Administration's belief, according to Mr. Barr, that the interest rate differential between the average rates of pooled loans and the rate to be given to participations will be between "one-fourth and three-eighths of 1 per cent"—and that the Government subsidy on all participation sales will be relatively slight.

This belief is subject to question. The House Banking and Currency Committee report on the bill (H.R. 14554) suggested that the spread may usually be a 0.5 per cent and frequently more. It notes that last February the Export-Import Bank sold \$360 million in participations at a 5.5 per cent rate. Last March 16, Fannie Mae sold \$41 million of participations at 5.5 per cent for intermediate maturities. (See table on page 7).

The Treasury does not contest the assertion that financing through the sale of participations will be more costly than direct Treasury borrowings. But it does challenge opponents' estimates as to how much more costly it will be.

In any case, the Treasury, through Mr. Barr, says the added cost is relatively unimportant, since the main aim of the bill "is to get the Government out of the banking business."

Implicit in this argument is the assumption that as sales of participations continue, the Government's portfolio of direct loans will decline commensurately. This, too, is subject to question.

Mr. Barr pointed out that direct loans eligible to be pooled, currently at \$33 billion, would increase to \$39 billion by the end of the year.

He further stated that "it would not be hard for me to imagine that within two years the total will go over \$50 billion, and within a decade, over \$100 billion."

He emphasized that the Government would continue its multi-sided direct lending program and also that as new lending programs are conceived or invented, these loans also could be made eligible for later pooling.

To "get the Government out of the banking business," therefore it would necessarily be assumed that the rate of sales of participations each year would increase faster than would the rate of build-up in new direct loans.

This would presuppose, using Mr. Barr's own estimates, that loans eligible for pooling would increase by more than 50 per cent within the next two years, \$50 billion over \$33 billion, an increase of \$17 billion.

In short, it would appear, assuming the Undersecretary's estimates are reasonably correct, the Government will be much more in the banking business than it is today, and rather than eliminating one form of banking business, it will have in fact two forms.

It is also the Treasury's argument that neither the volume of sales of participations nor the costs to the Government to refinance previous loans "will ever get out of hand" since "Congress through the Appropriations Committee, will remain permanently in control of the program."

The legislation as it goes to the House floor today (it has already been passed by the Senate) spells out this Congressional control in this way. It provides that whenever Fannie Mae has prepared a package of loans against which to offer its participations, this package or pool must be approved by the Appropriations Committee.

This is correct—as far as it goes. Committee approval, however, will extend only to the physical structure of the pool. That is, to approval of the loans making up any given pool.

No committee of Congress is sufficiently prescient to guess accurately in advance what rate will have to be placed on the participation certificates so that they can be sold. Therefore, as the bill states, approval of the structure of the pool will carry with it automatic approval of whatever dollar amount may be required to make up the rate differential—even though Congress won't know what the amount will be.

A pool could be submitted to the committee as much as six months or a year before participations are actually sold against it. In the interval, between approval and actual sale of participation rates could rise by as much as a quarter or one-third of a point.

The additional cost would make no difference. The appropriation to finance the rate subsidy is automatic, and Congress has no recourse or power of recall of its approval.

Mr. Barr conceded as much when he told the Rules Committee last week that the amount to be fixed "would have to be indefinite," although he supposed the committee could, if it chose, put some ceiling on the maximum rate to be paid on participations.

The legislation, however, contains no specific provision to support Mr. Barr's supposition.

When the White House first sent its plan for participations sales to Congress, it proposed that loans made under 100 different programs, including foreign aid loans, some of which are 40-year loans at $\frac{3}{4}$ per cent, could be eligible for pooling. It estimated that the total amount of direct loans that could be switched over to private investors, via the participations route, was \$33.1 billion.

However, during Senate floor debate on the bill, when it was discovered that not only foreign aid but Commodity Credit Corp. and loans to the British Government could be pooled, the Treasury hastily agreed to accept floor amendments stripping these types of loans from the eligibility list.

As the legislation stands today, here are the agencies, their loan programs and amounts that will be eligible—more than sufficient to meet the requirements of fiscal year 1966 and 1967:

	In millions of dollars
Agricultural Department, Farmers	
Home Administration-----	2,054
Office of Education, Academic Faci-	
ties Loans-----	66
Department of Housing and Urban/	
Development	
FNMA-----	1,427
Federal Housing Administration--	490
College Housing Loans-----	2,170
Public Facility Loans-----	206
Public Housing Loans-----	59
Housing for Elderly Loans-----	151
Urban Renewal Loans-----	214
Public Works Planning Advances--	63
Veterans Administration, Direct and	
Vendee Loans-----	868
Small Business Administration-----	1,072
Export-Import Bank-----	2,091
Total-----	10,971

These totals, of course, are subject to upward changes. The Senate approved only the stated agencies and the specific programs, but it placed no ceiling on the dollar amount of any loan program now eligible.

CASE IN POINT

The Eximbank is a good case in point. Eligible for pooling now—but only now—are \$2,097 million of Eximbank loans. Since the bank can lend up to its paid in capital of \$1 billion, its surplus of \$1 billion and its "draw on the Treasury" of \$6 billion, it could make an additional \$6 billion in export-import loans which, in turn, would become eligible for pooling.

There is considerable confusion remaining as to whether any given agency that has reduced its loan portfolio, say by \$500 million, by transferring that amount of loans to a Fannie Mae pool, can increase its direct loans by the same amount—without any further authorization from Congress.

The question is—as agencies sell portions of their existing loan portfolios, can they turn around and lend to other borrowers whatever they realize from their proportionate sale of participations?

The answer is still vague. The best that that Senate was able to arrive at is that any agency's future lending plans will depend on its individual charter. Since ultimately 100 loan programs may be declared eligible for pooling, these varying charter provisions will only add to the bewilderment as to what can or cannot be done with the proceeds from the sale of participations.

NO MORE DEFICITS

But this much is certain. With passage of the Participations Sales Act, there never need be another Federal deficit in the administrative budget.

If, for example, President Johnson has chosen to send to Congress a balanced budget for fiscal 1967, rather than one calling for a deficit of \$1.8 billion, all that he would have had to do would have been to add \$1.8 billion to his proposed "sale of assets."

In brief, under this legislation any future President can tailor his deficit—or his surplus—to whatever the fashion of the times demands. Obligations incurred by Fannie Mae do not appear in the budget as additions to the overall Federal debt, since they are agency securities, not "full faith and credit" obligations of the Government.

Much of Congressional confusion over what may be done in budget rigging in the future doubtless stems from the speed with which the measure has been jammed through committees and floors of both houses.

The Senate Banking and Currency Committee "deliberated" for two days—two hours one day, one hour the second, and then reported the bill out favorably.

DOES BETTER

The House Banking and Currency Committee did even better. The Committee convened a half hour after printed copies of the

Administration's bills were handed to Committee members. It met for three hours, hearing only Mr. Barr and Budget Bureau Director Charles Schultz, and then voted the bill favorably. Only during the Rules Committee's hearings was any other than favorable testimony taken.

Still another element of confusion—especially for Democratic members of both houses—is a quotation that keeps cropping up. Made during Congressional debate over the sale of assets proposed by the Eisenhower Administration, it is:

"... The purpose of this proposed bill is to achieve a balanced budget by selling off capital assets of the Federal Government. Such a balance would be fictitious and fiscally impossible. . . ."

Author of this quotation is the former Majority Leader of the Senate who, as President of the United States, is today chief sponsor of the current legislation.

Mr. PATMAN. Mr. Chairman, I yield 15 minutes to the gentleman from California [Mr. HANNA].

(Mr. HANNA asked and was given permission to revise and extend his remarks.)

Mr. HANNA. Mr. Chairman, I believe that one of the sobering aspects of this legislation is to consider the alternative to what we propose to do. I believe that this has been fairly clearly delineated by the gentleman from Arkansas [Mr. MILLS]. If we believe in the support of the programs for which these loans have been used; that is, to help to foster a normal economy and to extend credit to those people who have, because of their situation, been denied credit, we either have to support the bill or face some harsh alternatives.

Mr. Chairman, I do not believe we would want to take the first alternative, which is to just stop these programs.

Now, Mr. Chairman, those of us who want to go back and explain to the small businessmen, to the veterans, and to the homeowners, the college people and the farmers, why it is that we are not able to extend to them these programs, we may take that route. However, if we are going to carry on the program, then how are we going to do it? We could do it by raising taxes, but if we did this, we would have to freeze the programs for at least a year and take on the onus of raising the taxes. And, what would we do with the tax money, as the gentleman from Arkansas [Mr. MILLS] indicated? We would freeze that tax money increasing the heavy portfolio of these loans. I do not believe we want to do that.

Or, Mr. Chairman, we could take the third route, which would be to go out and borrow the money on the full faith and credit of the United States. Borrow that money for what purpose? To freeze it into a building of this portfolio and then have the same impact on the same money market that we are talking about in this bill.

Mr. Chairman, let us make this clear. What are we talking about in this bill? Let us not be confused. This is an extension of an existing program. The thing that amazes me is this: If this program is so bad, why have we not heard about the \$3.3 billion of sales under participations which have already gone on since 1962?

If it is so bad, why has there not been some reaction in these 3 years in which

those \$3.3 billion of participations have been sold in the market?

Under this bill what is proposed to be done is that we extend this program by bringing in five agencies, for a total of \$2.8 billion of participations into a program that has already been tried and proven by those \$3.3 billion of sales which have already been made.

Mr. Chairman, if we are just talking about an ongoing program, why this terrific amount of reaction?

Well I can see only several different answers to that. The first and obvious one, pointed out by the gentleman from Texas [Mr. PATMAN], it is true if we take the alternative to raising taxes or raising the money by the credit of the United States, this is a rather onerous job to be assumed by the party who has the responsibility of administration.

If on the other hand we utilize this device, we are going to be able to go into the same market, mind you, the same market we go in on credit and we will be able to go into this market and get money which will reduce the loan portfolio and allow good programs to proceed.

It seems to me that makes a good sound sense.

What effect will this have on that market? I can see no effect whatsoever but a neutral effect. The question is, if you assume we are going to go ahead and fund these programs, who is going to get to the market? Is it going to be the Treasury with Treasury bills or is it going to be FNMA with the participations?

So you are going to the same money market for the same purpose of raising this money. The difference is—in the one instance we continue to build a portfolio and remain a permanent banker and in the other we reduce the portfolio and we follow the policy of bringing private credit in where public credit now stands.

It seems to me that is the purpose that the government has been following for a long, long time and one that has been espoused by both sides of the aisle.

So it seems to me we should continue to do this.

Now it will be said by some that this is a gimmick or that it is gimmickery. Wherein lies the gimmickery? It seems to me pretty clear as a lawyer that we have something to sell. Take this instance—suppose you are a landlord and you have a lease on a large apartment house. Now have you ever heard of a device of assigning the rents and profits that you have under the lease? Do you give up the lease when you do that? No—because you have to keep the burdens of the lease to yourself. But when you separate the rights and the income out of that, it is a transferable commodity which can bring you money or it can be something which you provide as collateral to get cash.

Now we are here asking ourselves this basic question as we would ask ourselves as an individual. We have a need of funds. We have credit on the one hand and we have assets on the other. We ask ourselves the question. Shall we go to the money market with our asset and liquidate it and plow it into re-

use? Or shall we go with our credit and build up further our asset portfolio. It is as simple as that.

This legislation suggests where we stand today. The intelligent thing is to reduce our assets.

From the time that this country began, we had only one budget. That budget gives you no credit for any assets that you have bought or acquired. It is carried on the books as a debt until an asset is liquidated and then it is income. But you get no credit so far as the net wealth of the United States is concerned. I challenge any of you to tell me what it is. Because we do not keep books that way. It seems to me what we have devised here is a sensible and a longtime known principle under the legal market conditions of commercial paper and various negotiable instruments, a manner in which we can raise money for our needs and make a choice—a sensible choice—to say, What shall we do—increase our debt or reduce our assets? You do it all the time, gentlemen, if you are in any kind of business yourself.

All we are doing is trying to say to the Government. Why do we not operate on the same basic principle? We have assets. Why should we increase the debt?

The way we keep our books on this income-expense method has clogged the budget with these asset holdings which increase the debt.

There is one aspect of this legislation that I would like to call attention to, especially to the Republican Members.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. HANNA. I yield to the gentleman.

Mr. PATMAN. In the statement that was signed by all the minority members of the Committee on Ways and Means in 1963, commencing with the gentleman from Wisconsin [Mr. BYRNES] this statement is made—there was an issue of increasing the national debt. The minority members were arguing against it because we should instead sell off some of the assets and not have to increase the national debt.

The administration also can always reduce its borrowing requirements by additional sales of marketable government assets. This provides the Treasury with another cushion.

For example, when the Secretary of the Treasury was before the committee on February 27, we suggested it was incumbent upon the administration to show good faith before coming to the Congress for an additional increase in borrowing authority.

We point out that the Government held about \$30 billion in obligations, many of which were readily marketable. In fact, there was a very good market for many of these loans. Instead of making an offer of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in the borrowing authority. In other words, we were being blamed for voting against increasing the national debt because we did not do exactly what we propose to do today.

Mr. WELTNER. Mr. Chairman, will the gentleman yield?

Mr. HANNA. I yield to the gentleman from Georgia.

Mr. WELTNER. In view of the statement of the distinguished chairman of our committee citing previous urgings by our colleagues on the other side of the aisle to sell these securities and hence derive funds for carrying on governmental purposes, I wonder if the gentleman in the well could comment on the charge that this is really not a sale. If one goes by the Blackstone principles of what might constitute a sale—and, as I recall that from law school days, you had to have some consideration; it could be a peppercorn, a horse, a hog, or a robe, I believe the old Blackstonian concept was—this would not be a sale.

But I ask the gentleman if the beneficial ownership of security documents is disposed of in a binding transaction that carries with it the effect of guarantee of the U.S. Government, is that not for all intents and purposes in modern day financial practices safe?

Mr. HANNA. In my opinion it is, and I think the gentleman makes a very salient point, because I believe we are already well versed in the difference between equitable ownership and legal ownership. I wish I had a card that said I had legal ownership in my automobile. I have equitable ownership, and because I had equitable ownership I was able to go to the sheriff and say that my car had been stolen. So I must have had some rights in it.

Mr. WELTNER. Mr. Chairman, will the gentleman yield further?

Mr. HANNA. I yield to the gentleman from Georgia.

Mr. WELTNER. Would the gentleman agree that the best way to serve the people of this country in converting these assets into money which can be devoted to programs determined by the Congress would be the most efficient and productive way of disposing of them, even though it does not jibe with some Blackstonian concept of law?

Mr. HANNA. I hope we will not be ruled by the dead hand of Blackstone. I would rather hope that we would take on the fine flexible concepts that have been developed in the commercial world.

Mr. WELTNER. I thank the gentleman.

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. HANNA. I yield to the gentleman from New York.

Mr. FINO. The gentleman has in the course of the debate suggested that the proposal was a way to reduce and liquidate assets, if I am correct in refreshing my recollection. Will the gentleman point out to the House where in the bill it states that any of these assets will be liquidated or where it states that anything will be sold?

Mr. HANNA. If the gentleman follows the concept of the participation pool, he will find that there has been a division that is constantly being made in the business world between the burdens of a contract are transferred in trust to Once that division has been made—and it is often made—the benefits of the contract are transferred in trust to

FNMA. It then creates a pool arrangement and a dollar volume, which has as its prime interest payments on loans. Those are the benefits of the contracts.

Then there is made a division of that interest in a certificate, which is then on as an equitable interest to a buyer, and whether you call it an assignment, a transfer or a sale, the gentleman from Georgia is entirely correct. It is not what you call it; it is how effective it is. It transfers that beneficial interest to the person who holds that piece of paper, and it is just as true that if I assigned the certificate of my insurance company to the fellow who holds the mortgage on my house—you may not think I have transferred very much to him—but if my house burns down, I know who gets the money out of the insurance. That is something that is beneficial.

Mr. FINO. Mr. Chairman, will the gentleman yield further?

Mr. HANNA. I yield to the gentleman from New York.

Mr. FINO. First, I wish to say to the gentleman from California that he has not answered my question. I asked him where in the bill does it say that these assets will be liquidated or sold?

But what we are talking about is the sale of participation certificates, where ownership of these bonds, or the loans, will remain in the name of the United States Government; is that not correct?

Mr. HANNA. I have pointed out to the gentleman that the distinction is made as to the holding of legal title, with the burdens of the particular document we hold, which is a mortgage. There is a separation. The benefits are the payments, and the thing which is liquidated is the payment part of the contract. There has been a long-time distinction in the business world between the benefits and burdens.

I can assure the gentleman that these transfers have been going on for a long time. As a matter of fact, on the transfer of single loans or portion of single loans, there have been many instances, for instance, where the Farmers Home Administration has transferred, supposedly, the loan, but has withheld the responsibility of servicing the same loan loan sold.

I assure the gentleman, it is not a matter of semantics. We are taking equitable interests, assigning them, setting them up, transferring them. Call it anything, but it is a commercial transaction, dignified and accepted in the commercial market.

I would like to make another point, then, if I may. It seems to me we have raised the question here as to the impact of this transaction upon the market. There has been some suggestion that this will have a bad effect upon the mortgage market. I ask the gentleman to keep his eyes on this picture.

FNMA is the agency which will handle various participating certificates. FNMA is the public agency which is responsible for keeping some kind of balance in the mortgage market. Right now FNMA is in the mortgage market as a buyer, because money is short in the mortgage market.

At the same time, we have had successful sales of participation arrangements, and FNMA is the seller. Why is that? It is because the participation certificate goes to a different part of the money market than does the mortgages. It is precisely for this reason that we ought to have the flexibility of having both participation by certificate and the right to sell the full mortgages.

Mr. MILLS pointed this out very eloquently. I heartily endorse his statements, because what we have done here is to provide this instrument, which allows us to go into the money market, where there is money flow. The money which is now going into expansion of the industrial and commercial capabilities, where there is some inflation.

There is no inflation in the mortgage market right now. Quite the contrary. But these instruments do not go there. They go where the money is in too loose a supply. As a matter of fact, it will have a deflationary influence, if these sales are handled correctly.

I suggest we support the legislation.

This legislation is directed toward the goal of substituting private credit for public credit. A continuing objective of the Congress and the administrations of President Eisenhower, President Kennedy, and President Johnson. In order to understand the thrust of this measure and the sense of that objective, we might find it helpful to look back at the underlying rationale for having Federal credit programs in the first place. Today there are approximately 100 different Federal programs where the Government assumes all or part of the credit risk. These Federal credit programs have successfully enabled sizable groups of our citizens to share in economic progress and these programs authorized by Congress have had a significant contribution to the vital task of community development, education, health, development of resources and other social goals. These programs have resulted in \$100 billion in guarantees and \$33 billion in loan assets.

There are many types of borrowers who, in the judgment of Congress, carry on activities which are of social and economic importance to our system who are unable to establish credit standings. Perhaps it is because of their inexperience, as in some new small business, or their remoteness from credit sources, such as on the farms. Sometimes it is because of the attitudes and behaviors of lenders as it was in the instance of the homeowner purchase situation some 30 years ago. In each of these cases, the Government has adopted programs to encourage intrusion into these areas of some of the credit resources of our great economy, and in taking that lead the Government also picked up a part of the load and became, in a sense, a mix of pioneer banker and subsidizer—one who went out and trusted the strength of these borrowers and their ability to meet, on their own, the obligations of debt.

Throughout the basic purpose of the Federal loan program has not been to build up a large portfolio of financial assets. We did not want to take on the

role as full-time banker, but to assume a sufficient portion of the risk to make loan funds available on satisfactory terms to those borrowers whose activities were looked upon with favor by the Congress.

It was part of the basic philosophy to supplement and encourage the private market to direct the great resources of this land into places where investment in the future seemed to be a wise idea. At no time did Government want to replace the private money banking system. To encourage worthwhile enterprises, in our public, semipublic and private sectors, the Federal Government has established sort of a stepladder of assistance, and at the bottom of this ladder are the outright grants which are provided in those instances where it is thought the improvement brought about would put the recipient in the posture of self-help.

The next step is the direct loan with low interest rate and long terms where the ability to service debt appears to be somewhat weaker than the average in our economic situation in general. The next step up the ladder is to give 100-percent guarantee. After that, it is the participation loan in which a portion of the risk is assumed by the Government and the bulk of the loan is assumed by a private party, and, finally, the outright shift of the lending program to the normal institutions of credit in our society.

In regards to the extension of credit, the picture at the present time indicates that we have about \$33 billion worth of paper that has been generated by direct loans. In 1967, it is estimated that the five agencies involved in this legislation would have in their portfolio some \$7,736 million worth of frozen assets. Out of that portfolio, the present legislation contemplates in the same period the sale of about \$2.8 billion, leaving approximately \$5 billion still in their portfolios.

For a long time the economic financial specialists have been saying and political leaders have been agreeing that it did not make sense for the American people to go out into the money market and obtain funds to be channeled into these obligation notes and supporting paper and be frozen for long periods of time involved in the maturity of most of this paper. It has an average maturity life of something from 9 to 15 years. In the growing demands for support in certain segments of our economic activities, the volume of these programs has been growing every year and unless there is some liquidity and some source of shift provided, it simply means that more and more Government money will be frozen in the assets of the loans and the benefits that have been found to flow from encouraging the private market to participate will have been gone and for these particular obligations, Uncle Sam becomes the permanent banker.

Let it be said that there have been unanimous voices heard on the sale of these assets but the preference of some appears to be for the sale of the total asset on the part of some persons. We will seek to demonstrate as we go along how, if one is committed to the principle of shifting private for public credit, and

unless there is a desire for inefficiency and limited transfer, the participation program is greatly to be desired above the sale, straight sale, of selected loan assets.

The substantive policy we strongly maintain has been laid down a considerable time ago and has had general support. This bill speaks not of that substantive policy but of procedure to achieve that policy. This, gentlemen, must be understood.

Now, what of this procedure? This is where the Participation Sales Act of 1966 comes in. Because with the techniques, with the procedures that are made possible under this legislation, we would hope to be able to achieve a substantial reduction in a \$33½ billion portfolio during the fiscal year of 1967. This would be accomplished by stepping up to 4.2 billion the sale of loan assets through the participation sales device back into the private sector. We would be utilizing a technique which is not new, but one tried, tested, and proved through the export-import bank participation pools starting in 1962, through the FNMA participation pools made up of three classifications of loans. These programs have sold substantially over \$3 billion in a 3-year period. Let it be understood that these programs will go forward regardless of this legislation and there will be some 1 billion 900 million sold under those programs and this legislation would add to the growing program an additional participation volume of 2.8 which would bring us up to the 4.2 billion about which we speak.

The participation program, therefore, gentlemen, is a new rung in the ladder in which the Federal Government comes in to make an activity self-supporting, encourages it with direct loans, and then shifts the burden of the portfolio into the private sector freeing the Federal Government to continue to extend this help to the various sectors that have been selected by Congress and in a volume controlled by Congress without the burden of frozen assets that are generated as a result of going into the program. In other words, it minimizes the continuing involvement of the Federal Government in the financial and economic activities of the people within our country. Now let us examine into the question of why this particular procedure—why the participation pool? Here let us make some distinctions. If our friends of the minority who oppose this legislation are for the direct sale of loans, then their argument to you must be on substantially this basis. They prefer to see the Government sell the total loan. That is, the loan with its benefits and its burdens, a sale which is only possible on a selective basis inasmuch as these things are bound to be true—that if you sell the loans themselves, you immediately narrow the band of the market to a group of buyers who are familiar with the particular kind of activity to which the loans attach. This must be true because they have taken with the total sale where title passes to include the servicing and maintenance of the loan as well as the benefits of the payments on the loan accruing to them. In such a sale,

there will be not only the consideration of making the yield on the face of the loan current to the market, but there will be in addition a discount which will be negotiated on the buyer's concern for the cost of the burdens he assumes as well as the inherent risk of payment on the loan. In such sales, it has been demonstrated that the market band is narrow, the interest rate is current and the burden of the discount is carried in addition to the supported interest which means that the Government pays both in front to support the interest yield and on the back end of the deal for the discount, so that the total recovery by the Government is thereby substantially reduced.

Experience has shown that these markets are not moving a volume of paper which is in keeping with the demands of these programs. Now let us examine the benefits of the participation program. In this program, as it is true in many other transfers known to our commerce and business world, the burdens of the loan obligation are separated from its benefits. This is as though you had a lease drawn up in which both the landlord and the tenant have certain burdens within the lease. The landlord has the benefit of the rents and profits recited in the lease. The landlord for many years has had the right and exercised the right of transferring and assigning those rents and profits to a person who leaves the landlord holding whatever burdens of the lease were originally his. And so in this program in the loan assets the agency which has made the loan retains the loan and its burdens, that is, the requirements of servicing the loan and foreclosing it, rehabilitating it as the case may dictate, whereas the rights to the principal and interest payments are separated, assigned in trust to FNMA which in a trust indenture sets it up as part of the pooling arrangements wherein it takes similar assignments from other agencies on other type loans and having generated thereby a pool of income. A legal transfer of these rights to the payments can be made by certificates which are undivided interest in those payments. The person buying the certificate, therefore, obtains a proportionate right to certain of the payments made to the pool and in his transfer he is guaranteed by FNMA that the payments will be made. In the trust indenture, FNMA in turn has been guaranteed by the agencies that the obligor will either pay into the pool or the agency will pay into the pool. Therefore, the buyer has a doublebarreled guarantee made in the first instance by FNMA and backed up in the second instance by that agency in contractual relationship in the indenture agreement.

Now it is clearly to be seen that such paper generated would have a far wider appeal for there is no need for the buyer to be concerned about the knowledge of the activity concerned in the loan. He will have no obligations concerning them. This paper does not recite that it is guaranteed by the U.S. Government, for that would carry an implication otherwise that would imply that the income was immune to State tax. But

this in no way demeans nor changes the fact that it has a guarantee of payment of an agency of the U.S. Government behind it and this should be clearly in mind so that we do not get into a battle of semantics over the terminology of the guarantee. This device having been tested and tried by the export-import bank and by FNMA has encouraged debt management people of our Government to the point where they now propose through this bill to expand this new-found device in order to make more effective the policy of transferring from the Government to the private sector the financing of some of these programs for as the instruments or certificates are sold, the money comes into FNMA is channeled back to the agency and from there in payment of the outstanding obligations of the agency to the Treasury places the agency in a position to extend new loans on the basis of the renewed standing on the books of the Treasury without the necessity of the Treasury going forth into the same market getting new money to be placed in new loan assets to fill an already bulging portfolio at a rate that is quite substantial very year. I should like to point out an additional plus that is achieved by this new device, the certificate on the participation pool. This is a fully transferable instrument on its own, a negotiable instrument in the terminology of the law, and it provides a new fluidity in the money market itself in that once known these instruments will create their own secondary market and begin to flow as effective units of financial paper on their own. This is in the tradition of the Federal Government, gentlemen. We have constantly pursued this philosophical principle of creating vitality and velocity in our governmental and private sector financing. That is the reason that we have placed deposit insurance into operation. To take the money that was frozen in the hands of our public placed in tin cans and under mattresses and other dark and necromantic spots and put it into the institutions which could utilize it for the monetary demands of the day and give it an opportunity of utilization in two or three different directions almost simultaneously. And it is this tremendous velocity of our financial resources which has made the great progress that we have enjoyed possible. This move increasing this new instrument is in this same tradition.

Now let us look at how the shift from the private to the public sector occurs. You must constantly keep in your minds, gentlemen, that if we believe in the programs that the agencies are carrying out and the philosophical basis on which they rest, then we are committed to support them in the Congress. How do we express our support, by setting up appropriations for their programs and then placing the burden of funding these on the Treasury. How does the Treasury fund them? It goes to the money market with its Treasury bills, obtains the money on the Government's credit, places it in the hands of the agencies and they put it out in accordance with the loan programs dictated in the authorized legislation. This money then is

converted into the loan portfolio for the agency according to the interest and length of term established in the program. Now, how will this program differ in terms of funding? The appropriations will be made in the same manner by Congress only in this program the appropriation will speak in terms of authorization for the pooling arrangement.

The amount to be pooled will be stated and the volume of activity of the agency will be gaged by that appropriation measure. Then the agency involved will go through the mechanics we have described in setting over the rights of income, principal, and interest, to FNMA for the pool. FNMA will then go out with the certificates of participation to the market which the Treasury would have gone to to obtain the same money so there is no difference, gentlemen, as to the impact on the market—it is the question of who is going to go to the market and with what. In the first instance the Treasury with a Treasury bill and in the second instance the FNMA with a participation certificate, so that the volume of activity in the marketplace is the same if the volume of support for the program is the same. The question can be raised as to the differential of price. Argument will go in this vein. If the credit of the United States obtains a better yield on the marketplace, then will the participation certificates?

The argument is true, experience has indicated that the difference in the interest paid by the Federal Government on its bills is from one-eighth to three-eighths spread below the interest that has to be placed on the participation certificates. However, what are we buying with this differential? First we are buying the concept that we should substitute, to the maximum extent reasonable, private credit for public credit. In other words, it is worth some spread in order to get the private sector to assume a larger portion of the load of these programs. Second, this is buying that particular policy at the best possible price, for we are paying it now if we sell the way we have been selling the direct full loan in the narrow market, the price of this shift is considerably higher because as I have indicated, we are selling the burdens as well as the benefits and the market is thereby narrowed and the price is therefore raised. We are buying another thing which is of extreme importance. We are buying FNMA's experience in serving to coordinate the various agency financing one with the other and with the Treasury's debt management operation as well. And such cooperation, believe me, gentlemen, is worth a price in and of itself because without such coordination then the Treasury, as well as all of the agencies, will be getting less than the best interest price for any of their offerings.

We are also buying with this differential the opportunity to place into our system a new negotiable instrument which as it proves its effectiveness will also lower the spread that we have experienced and, in my judgment, these will enjoy sometime in the future a competi-

itive position so close to that of the Treasury bill that the distinction will be negligible. We will not know about this until we have given this program an opportunity to mature and to become understood and accepted. But those within the Government and those of us here in the House who have closely studied this matter have great faith that the prediction which I have voiced will indeed come true. As the Secretary of the Treasury said, in a recent speech:

We expect to find that the cost difference between these credit programs will be narrow and if anything may tend to decline, particularly after both private investors and the Government have gained useful experience under the program.

Now let me speak to you on this matter of the budget and the claims that this somehow or other distorts Government action, allows back-door spending or charges of that nature. I should like to make it clear at the outset that I entertain a high degree of sympathy and understanding for the Republican posture which would prefer to see the Democrats suffering under the tortures of extending the debt ceiling and therefore are very unwilling to see even a reasonable program of this nature come along to, in any way directly or indirectly, soften that burden. But to those enlightened Republicans who see the interest of their Government first and the political consideration second and to those liberal Democrats who have been for a moment enchanted by the idea that perhaps this is some kind of a giveaway, let me make these points clear. The posture of the Government has to be seen in terms of the distinction between this kind of banking activity which is a capital-making activity and the general operational function of the Government and the budgets which relate thereto. If we had simply an operational situation, then the cash inflow-outgo budget on a yearly basis that we now enjoy would make some sense. But because we have only the one budget and because there is no distinction between the capital formation activities and the general operational activities of the Government, then the debt ceiling has to reflect the outflow for both programs. There is no question that in the carrying out of the banking functions, there are operational costs—as the cost of administration, there are the costs that flow from the support of interest rates, and the cost of discounts and the cost of utilizing any agencies in the sale of offerings made by the Government. All of these are operational costs and should be accepted in the operational cash flow budget. But the tremendous amounts on the principals involved should not be reflected in the general debt because there are loan assets behind these which should be equal to, superior, or almost equal to the amounts involved and this is what does not reflect in the budget. In the bill that is before you today, there will be a more honest, a more clear demonstration of the actual cost of these programs than is true under present circumstances. I say this because the administrative costs

many times; the interest support costs, and others of those I enumerated will be lost in the general budget of the administration of the agencies involved and will only be untangled by these few of our Members who read the document recently devised by the Treasury to reflect this capital program; that is, the special analysis E that comes in with the budget. Furthermore, this legislation will relate—the sale of assets—carried out to the support for the volume of new activity that is authorized and appropriated by the Congress. The sales programs under this legislation will first have to find an expression of authorization in an appropriation bill and will, therefore, be under constant and close surveillance by the Congress, and this has not been true in the sale of full assets that have been experienced in the past. This legislation improves the effective role of Congress because it—First, brings the control of volume of loans closer to the appropriation method; and second, delineates and makes clear the actual costs related to the loan programs for which particular appropriation requests will have to be made.

(Mr. HANNA asked and was given permission to revise and extend his remarks.)

Mr. WIDNALL. Mr. Chairman, at this time I yield 20 minutes to the gentleman from New York [Mr. FINO].

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. FINO. I yield to the gentleman.

Mr. JONAS. Mr. Chairman, I have asked the gentleman to yield because I want to respond to a comment made in the colloquy between the distinguished chairman of the Banking and Currency Committee and the gentleman who just left the well.

The distinguished gentleman from Texas read from the minority views on a report coming out of the Ways and Means Committee, but I invite attention to the fact that those minority views were directed against the bill that sought to increase the debt limit.

We have quite a different situation here today. I will vote for this bill, if an amendment I propose to offer is adopted, and that is to provide that the funds generated by this program will be applied on the national debt. It is proposed in the bill to use capital assets to pay current operating expenses of the Federal Government.

When capital assets are disposed of, the proceeds ought to apply against the national debt.

Mr. FINO. Mr. Chairman, I rise in opposition to this legislation.

Mr. SCHMIDHAUSER. Mr. Chairman, I oppose the Sales Participation Act of 1966. I believe that we need an equitable tax reform measure instead of a reshuffling of debts.

Economic trends indicate that there is an even more urgent need for a thorough tax reform now in May than was apparent earlier this year. I began my systematic appraisal of our tax structure in the fall of 1965. My first tax reform bill, H.R. 12993, which would lower the oil

depletion allowance, was introduced before passage of the Tax Adjustment Act of 1966. As I stated on February 23, 1966, during debate on the tax legislation:

One such recommendation that has long been overdue is the need to reduce the present oil depletion allowance which currently gives an unwarranted tax advantage to an advantageously situated small segment of our population. It is unfortunate that a progressive reduction in the oil depletion allowance has not been incorporated in the present bill. To meet this need, I have introduced legislation in the House which will reduce the oil depletion allowance from its present rate of 27½ to 20 percent in progressive steps over a 3 year period.

I respectfully call to the attention of the Chairman and members of the Ways and Means Committee the fact that a sensible reduction in the oil depletion allowance will bring to the Nation substantial revenue without reimposing upon our working people in our factories and on our farms a heavier share of the tax load.

Finally, I believe it is time we redistributed that load by eliminating the special tax privileges that currently exist. The place to start is the reduction of the oil depletion allowance. The time to start is now.

Mr. Chairman, in addition to the need for action to lower the depletion allowance, I believe the time also has come to thoroughly reexamine the tax free status of revenues from advertising in magazines and other periodicals that are published by exempt organizations and that compete with taxpaying publications. On April 26, I pointed out to my colleagues in the CONGRESSIONAL RECORD, pages 8583-8584, that the tax free publications number about 700 and gross an estimated \$100 million a year. At that time I requested the Commissioner of Internal Revenue to act on this matter which has been pending for 6 years.

Since the Internal Revenue Service has continued to drag its feet in the true bureaucratic fashion that often disregards the public interest, I want to urge my colleagues to join me in pushing for an end to this special privilege.

Today I would like to point out that I believe current economic developments and trends require elimination or modification of the 7-percent tax credit for business investment in new equipment. I believe the same argument used to justify approval of the 7-percent tax credit in 1962; namely, to stimulate outlays for new business equipment, is now clear justification for its modification.

The most important thing to note about my tax reform proposal is that it would be absolutely unnecessary to increase the personal tax rate for the purpose of providing revenue or to curb allegedly inflationary pressures. In short, I firmly believe this is the fairest way to meet international and national needs for revenue and yet recognize that the economic restraints that have been imposed on our agricultural producers, our factory workers, and small business owners, should be applied equitably to all other sectors of the economy.

This noteworthy goal of fairness in the distribution of tax burdens is just as important a reason for rejecting the pending Sales Participation Act as it is for adopting a thoroughgoing reform of our

tax structure. Over the past months we have had repeated suggestions from the President, various Cabinet officers, and the Council of Economic Advisers, concerning "cooling any inflationary fires in our total economy." Adoption of the Sales Participation Act will not in any sense of the imagination cope with a real or imagined inflationary fire. Instead, it will further shift the burden onto the backs of those who must borrow money—particularly small borrowers.

Instead of putting the burden on the backs of small businessmen, workers, and farmers, let's take a good hard look at the huge profits announced recently by large corporations, and place a fair tax burden where it belongs, in addition to dampening this most potent source of inflationary tendencies. Thus, by rejecting the Sales Participation Act and initiating a thorough tax reform that has been overdue the last decade, we will achieve two noteworthy purposes.

First, dampening possible inflationary fires from their actual source, and second, guaranteeing to the American factory workers, small businessmen, and farmers, that the American tax system has achieved a degree of the fairness which it has been lacking over the past 10 years.

Mr. RHODES of Arizona. Mr. Chairman, at the May 10, 1966, meeting of the House Republican policy committee a policy statement regarding H.R. 14544, Participation Sales Act of 1966, was adopted. As chairman of the policy committee, I include at this point in the RECORD the complete text of this statement:

With this bill, the Johnson-Humphrey Administration has reached a new level of fiscal irresponsibility. In rapid succession we have witnessed five straight years of Federal budget deficits that have averaged \$6.2 billion, the dwindling of our gold supply from \$18 billion in 1960 to less than \$14 billion, a balance of payments deficit that has averaged \$3 billion a year, a rise in the budget from \$81.5 billion in 1961 to an estimated \$112.8 billion in 1967, the removal of silver from our coins, and a reduction in the gold that backstops our currency.

Now, under the provisions of H.R. 14544, the Johnson-Humphrey Administration will be given the authority to establish a whole new system of back-door, deficit financing. Under this system, all manner of grandiose Great Society programs can be funded by simply refinancing the billions of dollars in financial assets that the Federal Government presently owns and not one cent of this spending will be reflected in the budget.

Under the proposed Participation Sales Act, the Federal National Mortgage Association (FNMA) will sell participations in a pool of Government-held financial assets or loans, which could total \$33.1 billion. Unfortunately, the participation "sale" is a fiction. The purchaser does not acquire title to the pooled asset. All he acquires is the right to have his investment repaid with interest at the rate stated in the participation certificate. Moreover, the money acquired through these "sales" will be paid directly to the pooling agency and used to offset expenditures that normally appear in the budget.

The Administrative budget for fiscal year 1967, after making several doubtful estimates of revenue, contemplates a budget deficit of only \$1.8 billion. However, if the \$4.2 billion of participation sales authorized by this bill are not made, the budget deficit will be

\$6 billion. It is interesting to note that, using the participations device, the Administration could have projected a budget surplus rather than a deficit. But it chose not to do this. Apparently, it feared that such flagrant sleight-of-hand bookkeeping at this stage of the game would alert the American public to its fiscal chicanery. In the event this bill is enacted into law, there certainly is reason to believe that this type of financial gymnastics will be resorted to in the future. Thus, the day of the publicly-acknowledged deficit may be a thing of the past.

The largest and most rapidly growing Federal loan program is that of the Agency for International Development (AID). It is estimated that at the close of fiscal year 1967 the outstanding volume of direct loans made in foreign countries by this Agency will be \$12 billion. In its new role, FNMA could sell participations in a pool of such loans, even though in some instances AID loans bear interest as low as ¼ of 1 percent per year. Obviously, these AID loans would be unsalable unless FNMA guaranteed the payment of principal and a reasonable rate of interest on the participations sold. AID holdings of foreign aid loans are expanding at a rate of \$1.5 billion per year. Under the present system, this money is appropriated by Congress and charged against the Administrative budget. If this bill is enacted, the only charge against the Administrative budget would be the appropriation to make up the deficiency between the income received on the loans and the interest cost of the participations sold. Thus, instead of the real cost to the taxpayers—\$1.5 billion—being charged against the budget, the charge, thanks to the provisions of this bill, would be as low as \$45 million per year.

The refinancing that is required under H.R. 14544 will cost the American taxpayer an additional \$5 million a year on each \$1 billion of the participations sold. Thus, in the event \$4.2 billion of participations are sold, there will be a cost to the taxpayer of \$21 million per year. If the average maturity for participations is 10 years, the taxpayer will be gouged over \$200 million in unnecessary expenses.

At the present time, the home mortgage market is in a state of turmoil and confusion. Home construction is at a dangerously low level. If the FNMA participation sales are authorized, the FHA and GI mortgages, and other home mortgages as well, will become less and less attractive to investors. In order to meet competition and obtain home mortgage financing, higher home mortgage financing costs will have to be imposed. As a result, the prospective home builders or buyers will be forced to carry an additional financial burden.

To date, FNMA has sold four issues of participations. Each time they have been sold to the same four big Wall Street investment houses. Transactions under this arrangement have totaled over \$1.6 billion, and over \$5 million of commissions have been paid. Under this bill, this clubby and financially advantageous arrangement could not only continue but could become even more lucrative. Certainly, at a minimum, the statute should require that these participations be sold on a competitive bid basis.

It has been claimed that the participations sale proposal contained in H.R. 14544 is an extension of the program inaugurated by the Eisenhower administration. In support of this contention, there is cited the FNMA swap in fiscal year 1960 of \$311 million of low interest mortgages for \$316 million of non-marketable Treasury investment bonds owned by the public. The facts, however, reflect that these two programs are totally dissimilar, and the Eisenhower program cannot be used as justification for the Johnson-Humphrey scheme. The Eisenhower pro-

gram was a straightforward financial transaction. The mortgages were sold on a competitive bid basis, paid for by bonds held by investors. Actual title to the mortgages passed to the purchasers and proceeds were carried in the budget as a budget receipt. The bonds acquired by FNMA were surrendered to Treasury for cancellation. Thereupon, Treasury reduced FNMA indebtedness to it by a like amount. Thus, contrary to the proposed scheme, there was no budget runaround in the Eisenhower program.

As incredible as it may seem, this bill was not available to Committee members until ½ hour before the hearings began. Thereafter, only 2 hours of hearings were held and the Republican members of the Committee were denied the right or opportunity to call any witnesses. Moreover, not one witness from the unions, farming, business, or banking was called. At the conclusion of these totally inadequate hearings, the Committee was ordered into immediate executive session and in less than 30 minutes, the bill was ordered reported.

Legislative action of this type goes far beyond even that which has become the standard rubberstamp procedure for this 89th Congress. This bill would permit the Johnson-Humphrey Administration to conceal huge budgetary deficits. It would invite a spending spree that would delight the emperors of old. It can only lead to financial disaster. H.R. 14544 must be defeated.

Mr. MINISH. Mr. Chairman, I rise in wholehearted support of H.R. 14544, the Sales Participation Act of 1966. H.R. 14544 might also be called the Small Business Revival Act of 1966, since passage of the measure will insure that the Small Business Administration will reopen its regular lending programs which have been closed since October of 1965, and hopefully this legislation will preclude the possibility of SBA closing its lending windows in the future.

The Sales Participation Act of 1966 will not only benefit the entire economy, but its impact on small business will be tremendous. Recently, the Small Business Administration, in an effort to secure much-needed funds, sold \$110 million worth of small business investment company 20-year debentures. These are loans which the Small Business Administration has made to SBIC's throughout the country. These debentures were sold on an individual basis, and the market response was so poor that in order to obtain the much-needed funds, the agency finally had to sell the debentures for 5.75 percent, plus a quarter of a percent brokerage commission. When the dust had finally cleared, SBA had discounted the loan paper nearly \$10 million, \$10 million which could have gone to deserving small businesses.

However, if the agency had been blessed with passage of H.R. 14544, the loss incurred in the debenture sales would not have happened, since the agency could have pooled these loans and sold participating shares in the pool. It is estimated that this technique would have saved the agency nearly \$5 million. This savings represents 500 \$10,000 loans which could have been made to small business concerns.

Mr. Chairman, at the present time the Small Business Administration holds nearly \$1.4 billion in loans to small businesses and disaster loans. It is particularly significant to note that of this total,

nearly \$282 million is in the form of disaster loans which carry 3 percent interest rate and run as long as 30 years. It is virtually impossible, due to the long maturities and low interest rate, for the Small Business Administration to sell disaster loans directly. This is one of the main reasons that the agency has had to curtail its lending functions in the past. Disaster loans were needed, but because of the large holdings of these loans, the agency had to borrow from funds earmarked for other programs.

However, under the Sales Participation Act, SBA will be able to pool disaster loans along with its regular business loans, which carry a 5.5 interest rate, and through an equitable mixed formula, establish a participation pool which will be readily marketable. In this way, the Small Business Administration should have adequate funds for all its lending programs.

Mr. Chairman, I urge all of my colleagues to vote for passage of H.R. 14544.

Mr. HANSEN of Iowa. Mr. Chairman, as a Member of Congress from the great State of Iowa, long one of the Nation's leading agricultural producing areas, I rise in support of the pending bill, called the Participation Sales Act of 1966.

I favor the basic objectives of this legislation, and I am confident that it will in no way jeopardize any of our existing Government lending programs involving our farm families.

Permit me to review briefly the progress of this legislation, which already already has passed the Senate—with some additional safeguards accepted by the administration.

As I understand it, when this bill was originally proposed, it would have authorized the pooling of loan paper—direct loans made in the past and outstanding at the present time—now held by many different Government agencies.

The authority in the original bill for this type of pooling operation was pretty broad.

But, Mr. Chairman, it would be both incorrect and unfair to say that the administration at any time ever suggested that such broad authority, once granted by Congress, would be used to sell participations in the outstanding direct loans made in the past under all the Government credit programs voted by Congress.

There have been—in my opinion—some false alarms about this.

So far as I can determine, no one speaking for the administration, for example, ever said REA loans would be pooled—with participations in such pooled assets being sold subsequently to private investors. No one ever suggested that foreign aid loans would be pooled.

From the very beginning, Mr. Chairman, we have been given the assurances that the Government is not going to rush pellmell into an extension of the sales participation technique to a huge number of direct Government lending programs. And, as this legislation has moved through Congress, it has changed somewhat. As I understand it, the other body modified its bill to provide

that the participation sales approach should be extended only within specific limits. Further, there was a Senate amendment making it clear that certain lending activities of the Farmers Home Administration would be reserved from the asset pooling operations.

Now, Mr. Chairman, I understand that we in the House of Representatives, during floor consideration of the bill approved by the House Banking and Currency Committee, are in the process of adopting very similar, if not identical, limitations.

As for the basic idea behind this legislation, I support it. I do not favor building up, more and more, the volume of direct loans being held by the Government particularly when we can, through authorization legislation, cut new channels from the public credit to the private credit sector of our economy.

And, as Treasury Secretary Henry H. Fowler pointed out in a recent speech in North Carolina:

— We are well aware that in seeking to deepen and widen the channels between public and private credit markets that it would be pointless to attempt to press more on the market than it can readily absorb.

Even without the new safeguards we in Congress have put into this legislation, I personally feel, Mr. Chairman, that the bill in its original form would not have jeopardized any of our meritorious direct Government lending programs.

I will not go into the history of that, except to say that this legislation would not have created any new lending authority; it would not have removed control of any direct lending program from the hands of the agencies that now administer such programs; it would not have given private credit sources control over such direct lending activities.

In addition, the legislation provides for careful review of participation pooling operations by the House and Senate Appropriations Committees.

I support the bill. I intended to vote for it. And, Mr. Chairman, I urge other Members of this body to vote for it.

Mr. GROSS. Mr. Chairman, I make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will count.

Mr. PATMAN. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly, the Committee rose; and the Speaker having resumed the chair, Mr. KEOGH, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes, had come to no resolution thereon.

GENERAL LEAVE

Mr. PATMAN. Mr. Speaker, I ask unanimous consent that all Members speaking today in the Committee of the Whole may have permission to revise and

extend their remarks and include extraneous matter; and I further ask unanimous consent that all Members may have the privilege of extending their remarks in the *RECORD* today and of including extraneous matter on the bill, H.R. 14544.

The **SPEAKER**. Is there objection to the request of the gentleman from Texas?

There was no objection.

FACT-REPORTING BAIL AGENCY IN COURTS OF THE DISTRICT OF COLUMBIA

(Mr. **WHITENER** asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. **WHITENER**. Mr. Speaker, I have today introduced a bill to establish a fact-reporting bail agency in the courts of the District of Columbia. I am introducing this bill at the request of the circuit judges of the U.S. Court of Appeals, who met in council on May 11, 1966.

This legislation has been thoroughly considered by the judges of the Circuit Court of Appeals and represents the thinking of many knowledgeable persons in the field of criminal jurisprudence.

It has as its basic purpose the establishment of a system whereby worthy defendants in criminal cases may have an orderly procedure available to them and to the courts for the determination of the preliminary question of bailability, amount of bail, and other relevant factors which are daily passed upon by the judges in the District of Columbia.

In addition, the fact-reporting entity will also make its services available upon request to the judges of the U.S. Court of Appeals and to any Justice of the Supreme Court whenever bail pending appeal becomes an issue.

It is contemplated that the annual cost of this advanced and improved program of handling bail matters will not exceed \$80,000 per year. It is further contemplated that this amount will be recouped manifold because of the advantages to the worthy accused whose family and community ties justify release under terms fixed by the courts.

The need for placing the family on relief, the possibility of continued employment of the accused, not to mention the cost of detention, are factors which we feel will bring benefits greatly in excess of the cost of the program.

The distinguished chairman of the Committee on the District of Columbia of the House of Representatives has been interested in this problem for some time, and I am introducing the bill with his full concurrence in order that the Congress may have an opportunity to consider it and hear the testimony of interested parties. It is hoped that this will result in the enactment of legislation which will find unanimous support in both bodies of the Congress.

FEDERAL BANK SUPERVISION IN SHAMBLES—CAUSES HIGH INTEREST RATES AND UNFAIR COMPETITION FOR THRIFT INSTITUTIONS

(Mr. **PATMAN** asked and was given permission to extend his remarks at this point in the *RECORD* and to include extraneous matter.)

Mr. **PATMAN**. Mr. Speaker, ridiculous and unnecessary as it is, the Nation's financial institutions, the largest as well as the smallest, are engaging in a wasteful and destructive rate war. This rate war has two causes. First and foremost is the Federal Reserve Board's extreme tight money policy which has led financial institutions into a wild scramble for deposits. This competition for new accounts plus tight money has led to sky-high interest rates and unsound banking practices. Instead of acting to cool off this dangerous and extremely inflationary development, the Federal Reserve Board's encouraging banks to issue \$18 billion of negotiable certificates of deposit of doubtful legality has instead seriously aggravated the situation.

The situation is now so critical that your Banking and Currency Committee is taking up much valuable time to put an end to these unsound practices and this senseless rate war. Already home buyers, home builders, and the mortgage market have suffered extreme harm with interest rates on home loans at their highest in many years. The thrift industry—savings and loan institutions from all over the country—are literally flooding Members' offices with their mail because of massive savings withdrawals. But it is not just the thrift industry and housing that are suffering from this lax and inadequate bank supervision. The Treasury bill market has suffered drastically with interest rates there also the highest in many years and thus an added burden on the taxpayers.

We have just let the Federal Reserve System and the other Federal bank supervisory agencies have their way for much too long. They have proven themselves incapable of doing a decent job, claiming independence as they do from the rest of the Government. To restore some sanity to this deplorable and completely unjustifiable situation, it will be necessary that this freewheeling independence be curbed.

Indicative of the widespread concern and attention that this matter is getting, in addition to the hearings on my bill H.R. 14026, to outlaw negotiable certificates of deposit, is the following editorial from the May 12 *Journal of Commerce* entitled "Did the Fed Make a Mistake?" [From the *Journal of Commerce*, May 12, 1966]

DID THE FED MAKE A MISTAKE?

The Reserve Board's announcement of a fresh inquiry, to be made at 6,200 member banks by questionnaire, as to what interest rates and other terms are being offered on

time deposits, carries a connotation that either the Board made a mistake last December in raising the interest ceiling on time deposits other than passbook savings to 5½ from 4½ per cent, or that the nation's commercial banks have mistakenly taken the new ceiling as a license to pay too much.

Another connotation is that if a mistake was made the Board is contemplating what should be done to correct it. This in turn raises the interesting question of what in the world the Board can do without new legislation.

Certainly it is unfortunate that one sequel to the high rates paid by major banks for certificate of deposit money should result in a drain of upward of \$1 billion from savings and loan associations and from mutual savings banks. This puts a big crimp in the mortgage market and is destructive to new housing and other building construction.

At the time the Board set the higher interest ceiling on time deposits the hope was officially expressed that banks would not go out and bid too recklessly for money. Obviously a large segment of the banking business, faced with a need for more money to lend at rates well above deposit interest rates, has done just that. The new inquiry will pinpoint who and where and how much. The Federal Reserve questionnaire to commercial member banks will be supplemented by a similar Federal Deposit Insurance survey of non-member banks. In effect this covers all banks.

Incidentally, a similar and perhaps more limited inquiry earlier this year produced results indicating that banks were moving slowly in paying higher rates. Since then, however, money rates have moved to further 40-year highs and pressure on banks for funds has increased.

The purposes of the rise in the interest ceiling on certain forms of time deposits last December were, of course, to stimulate banks to increase their lending capacity by gathering in an increased percentage of existing deposits rather than to resort to ever more Federal Reserve money to support a higher volume of demand deposits created by rising loans. It would be incongruous for the Reserve banks to restrict bank lending through the rise in the rediscount rate to 4½ from 4 per cent last December while at the same time pumping into the banking system ever more Federal Reserve money.

Had the discount rate been increased without a higher ceiling on time deposit rates banks might have been put into a liquidity squeeze through forced redemption of large amounts of certificates of deposit then already created. Maybe a 5½ per cent ceiling was too high. The Federal Reserve can reduce it, but to do so now would at once produce a real banking liquidity crisis.

There are ways in which the Board can correct a mistake if it was made, but they seemingly require new legislation. One way would be to a \$15,000 limit upon certificates of deposit on which rates up to 5½ per cent could be paid. A bill is pending to set such a limit, which would automatically end much of the withdrawals at savings banks and savings and loan associations.

The Board now does not have the power to set rates by volume of deposits, although it may and has distinguished between savings and other time deposits. By keeping the passbooks saving rate at 4 per cent it has encouraged big shifts out of commercial bank savings accounts.

Another way out would be to set higher required reserves on small denominations of

DIGEST of Congressional Proceedings

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HIGHLIGHTS: House received conference report on Interior appropriation bill, including Forest Service. House debated participation sales bill. Rep. Ashbrook criticized administration on farm prices issue. Rep. Gilligan introduced and recommended child nutrition bill. Reps. Rice and Stalbaum introduced and Rep. Race discussed dairy import bill.

HOUSE

1. APPROPRIATIONS. Received the conference report on H. R. 14215, the Interior and related agencies appropriation bill (H. Rept. 1538) (pp. 10314-6). The conference provided \$18,093,000 as proposed by the Senate for the Forest Service under the Land and Water Conservation Fund. A table reflecting the action of the conference is attached to this Digest.

2. PARTICIPATION SALES. Continued debate on H. R. 14544, the participation sales bill. pp. 10322-45

3. DISASTER RELIEF. Received from the President a report on activity under Public Law 875, 81st Cong., on disaster relief. pp. 10319, 10223
4. LABOR STANDARDS. Del. Polanco-Abreu protested the treatment of Puerto Rico in the labor standards bill. pp. 10347-55
5. FARM PRICES. Rep. Ashbrook criticized the record of the Administration on farm prices and inserted the recent Republican telegram to Secretary Freeman and the Secretary's reply. pp. 10361-3
6. POPULATION; FOOD NEEDS. Rep. Todd inserted an article, "FAO Finds Population Outpaces Food Gains." p. 10368
7. EXPOSITION. Received from the Commerce Department a report on the proposed U. S. participation in the Inter-American Cultural and Trade Center. p. 10372
8. EDUCATION. The Education and Labor Committee reported with amendment H. R. 14643, to provide for strengthening educational resources for international studies and research (H. Rept. 1539). p. 10372
9. ROADS. The Roads Subcommittee approved for full committee action a substitute for H. R. 14359, to authorize road appropriations for 1968 and 1969. p. D426
10. PERSONNEL. Received from the Civil Service Commission a proposed bill "to amend section 1310 of the Supplemental Appropriation Act, 1952, as amended," which provides various restrictions on promotions and transfers; to Post Office and Civil Service Committee. p. 10372
11. LEGISLATIVE PROGRAM as announced by Majority Leader Albert: Today, Interior appropriation bill and participation sales bill; next week, labor standards bill. p. 10345

SENATE

12. TRANSPORTATION. Concurred in the House amendment to S. 1098, to amend the Interstate Commerce Act so as to insure the adequacy of the national railroad freight car supply. This bill will now be sent to the President. pp. 10250-52
13. FISHERIES. The Commerce Committee voted to report (but did not actually report) S. J. Res. 29, to direct the Bureau of Commercial Fisheries to survey the marine and fresh-water commercial fishery resources of the U. S., its territories and possessions. p. D424
14. AWARDS. Passed as reported S. 2463, to grant the consent of the Congress to the acceptance of certain gifts and decorations from foreign governments. pp. 10312-3
15. VISITOR CENTER. The Public Works Committee reported with amendments S. 3031, to authorize the Secretary of the Interior to establish a National Visitor Center (S. Rept. 1161). The bill was then referred to the Interior and Insular Affairs Committee. p. 10224

With the following committee amendment:

Page 1, line 7, strike "for \$272,063.17, in full settlement of its claims".

The committee amendment was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

PEDRO IRIZARRY GUIDO

The Clerk called the bill (H.R. 2914) for the relief of Pedro Irizarry Guido.

The SPEAKER. Is there objection to the present consideration of the bill?

Mr. TALCOTT. Mr. Speaker, I ask unanimous consent that this bill be passed over without prejudice.

The SPEAKER. Is there objection to the request of the gentleman from California?

There was no objection.

FRED M. OSTEEN

The Clerk called the bill (H.R. 11940) for the relief of Fred M. Osteen.

There being no objection, the Clerk read the bill, as follows:

H.R. 11940

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, in the administration of the annual leave account of Fred M. Osteen, postal employee of Greenville, South Carolina, there shall be added a separate account of ninety-six hours of annual leave, in full settlement of all claims of the said Fred M. Osteen against the United States for compensation for the loss of such leave which was earned by him in the period January 1, 1958, through December 31, 1959, inclusive, while he was employed in the United States Post Office in Greenville, South Carolina, and which, through administrative error, was not credited to his leave account.

SEC. 2. Section 203(c) of the Annual and Sick Leave Act of 1951, as amended (65 Stat. 680, 67 Stat. 137; 5 U.S.C. 2062(c)), shall not apply with respect to the leave granted by this Act, and such leave likewise shall not affect the use or accumulation, pursuant to applicable law, of other annual leave earned by the said Fred M. Osteen. None of the leave granted by this Act shall be settled by means of a cash payment in the event such leave or part thereof remains unused at the time the said Fred M. Osteen is separated by death or otherwise from the Federal service.

With the following committee amendment:

Page 1, lines 5 and 6, strike "ninety-six" and insert "eighty-one".

The committee amendment was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

ANTHONY A. CALLOWAY

The Clerk called the bill (H.R. 12315) for the relief of Anthony A. Calloway.

There being no objection, the Clerk read the bill, as follows:

H.R. 12315

Be it enacted by the Senate and House of Representatives of the United States of

America in Congress assembled, That the Secretary of the Treasury is hereby authorized and directed to pay, out of any money in the Treasury not otherwise appropriated, to McKinley Harris, Junior, the sum of \$1,000 in full settlement of all claims against the United States and against Anthony A. Calloway arising out of an accident which occurred in Chicago, Illinois, on May 3, 1960, when said Anthony A. Calloway was operating a Government motor vehicle in the course of his duties as an employee of the United States Post Office Department and in full satisfaction of the judgment and costs entered against the said Anthony A. Calloway in civil action numbered 64C531 in the United States District Court for the Northern District of Illinois, based upon said accident. No part of the amount appropriated in this Act in excess of 20 per centum thereof shall be paid or delivered to or received by any agent or attorney on account of services rendered in connection with this claim, any contract to the contrary notwithstanding. Any person violating the provisions of this Act shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

JOHN R. SYLVIA

The Clerk called the bill (H.R. 12884) for the relief of John R. Sylvia.

There being no objection, the Clerk read the bill, as follows:

H.R. 12884

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is authorized and directed to pay, out of any money in the Treasury not otherwise appropriated, to John R. Sylvia, the sum of \$350 in full settlement of all claims of the said John R. Sylvia against the United States for reimbursement of the amount paid or to be paid in settlement of the judgment against him obtained in civil action numbered 64-116-C in the United States District Court for the District of Massachusetts, as a result of a motor vehicle collision on January 22, 1962, in New Bedford, Massachusetts, between a privately owned vehicle and a vehicle being operated by him within the scope of his employment with the United States Post Office Department. The payment authorized by this Act shall be made on the condition that the amount so received shall be paid in settlement of such judgment or that the said John R. Sylvia has made payment in settlement of such judgment. No part of the amount appropriated in this Act shall be paid or delivered to or received by any agent or attorney on account of services rendered in connection with this claim, and the same shall be unlawful, any contract to the contrary notwithstanding. Any person violating the provisions of this Act shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

NATHAN LEVINE

The Clerk called the bill (H.R. 7026) for the relief of Nathan Levine.

There being no objection, the Clerk read the bill, as follows:

H.R. 7026

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Nathan Levine, of New York, New York, is hereby relieved of liability to the United States in the amount of \$2,287.80, the amount of an overpayment to him of salary retention payments in the period beginning July 1, 1962, and ending in November 1964, because of an administrative error. In the audit and settlement of the accounts of any certifying or disbursing officer of the United States, credit shall be given for any amount for which liability is relieved by this Act.

SEC. 2. The Secretary of the Treasury is hereby authorized and directed to pay, out of any money in the Treasury not otherwise appropriated, to said Nathan Levine, an amount equal to the aggregate of the amounts paid by him, or withheld from sums otherwise due him, in complete or partial satisfaction of the liability to the United States specified in the first section. No part of the amount appropriated in this Act in excess of 10 per centum thereof shall be paid or delivered to or received by any agent or attorney on account of services rendered in connection with this claim, and the same shall be unlawful, any contract to the contrary notwithstanding. Any person violating the provisions of this Act shall be deemed guilty of a misdemeanor and upon conviction thereof shall be fined in any sum not exceeding \$1,000.

With the following committee amendment:

Page 2, line 8, strike "in excess of 10 per centum thereof".

The committee amendment was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

WHITE DEER BAPTIST CHURCH, ALLENWOOD, PA.

The Clerk called the bill (H.R. 11253) to provide for the conveyance of certain real property of the United States situated in the State of Pennsylvania.

There being no objection, the Clerk read the bill, as follows:

H.R. 11253

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Attorney General is authorized and directed to convey to the White Deer Baptist Church, Allenwood, Pennsylvania, all right, title, and interest of the United States in and to that portion of the 4.32-acre tract of land described in section 2 of this Act and owned by the United States on the date of enactment of this Act (which portion consists of 2.73 acres more or less), upon payment to the United States by or on behalf of the White Deer Baptist Church of the fair market value of the United States portion (as determined by the Attorney General).

SEC. 2. The 4.32-acre tract of land referred to in the first section of this Act is described as follows: Beginning at a point in the centerline of L.R. 176 (old State Route 44), where township route 433 intersects with L.R. 176; thence from said point north 43 degrees 35 minutes west a distance of 250.08 feet to a stake;

thence north 29 degrees 33 minutes east a distance of 328.04 feet to a stake;

thence north 51 degrees 24 minutes west a distance of 359.43 feet to a stake;

thence south 62 degrees 3 minutes west, a distance of 335.24 feet to a point marked

with a button in the centerline of old route 44;

thence along the centerline of old route 44 south 48 degrees 9 minutes east a distance of 260.48 feet to a point marked with a button; thence south 7 degrees 36 minutes west a distance of 181.21 feet to an iron pipe; thence south 66 degrees 40 minutes east a distance of 405.53 feet to an iron pipe; thence south 66 degrees 25 minutes east a distance of 49.19 feet to the centerline of L.R. 176 (old route 44), the place of beginning marked with a button. This property being completely surrounded by the Northeast United States Federal Prison Camp, containing 4.32 acres, more or less.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

Mr. BOLAND. Mr. Speaker, I ask unanimous consent that further reading of the Private Calendar be dispensed with.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

The SPEAKER. This concludes the call of the Private Calendar.

CALL OF THE HOUSE

Mr. PRICE. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move the call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 102]

Baring	Green, Pa.	Olsen, Mont.
Barrett	Hagan, Ga.	O'Neill, Mass.
Byrne, Pa.	Halleck	Powell
Cabell	Hansen, Idaho	Resnick
Carter	Hansen, Wash.	Roncalio
Chelf	Hawkins	Rooney, N.Y.
Clark	Hébert	Rooney, Pa.
Colmer	Hollifield	St. Onge
Conyers	Holland	Scott
Corbett	Howard	Sikes
Craley	Jones, Mo.	Sullivan
Daddario	Jones, N.C.	Teague, Calif.
Dague	Leggett	Thompson, N.J.
Dawson	McCarthy	Toil
Dickinson	MacGregor	Tupper
Diggs	Martin, Mass.	Watkins
Downing	Mathias	Watson
Duncan, Oreg.	Michel	Whalley
Edwards, Ala.	Miller	Williams
Ellsworth	Morgan	Willis
Fallon	Morse	Wilson
Felghan	Mosher	Charles H.
Flood	Murray	Young
Goodell	Nlx	

The SPEAKER. On this rollcall 360 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

PARTICIPATION SALES ACT OF 1966

Mr. MULTER. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets

held by Federal credit agencies, and for other purposes.

The motion was agreed to.

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill H.R. 14544, with Mr. KEOGH in the chair.

The CHAIRMAN. When the Committee rose on yesterday the gentleman from Texas [Mr. PATMAN] had 1 hour and 18 minutes remaining and the gentleman from New Jersey [Mr. WIDNALL] had 1 hour and 19 minutes remaining. Before the Committee rose the gentleman from New York [Mr. FINO] had the floor. The gentleman from New York [Mr. FINO] has 19 minutes remaining. The Chair now recognizes the gentleman from New York [Mr. FINO].

Mr. FINO. Mr. Chairman, I rise in opposition to this legislation.

At the very inception. I would like to compliment the President on the way he is maneuvering this legislation toward passage. We on the minority side have pried open the lid of this fiscal and monetary receptacle, but I regret to say that we have not been too successful in publicizing the stench. The President, in the name of party loyalty, has ordered the majority members of this House to put on their gas masks and smile. This is most unfortunate. I am asking the majority to take off their gas masks, take a good whiff of this bill, and think about their country instead of their party.

I wish the distinguished chairman of the Banking and Currency Committee would tell us how he can abandon his lifelong philosophy of protecting the farmer and small homeowner against high interest rates so that a few big banks can get windfall profits out of participating in budget trickery. That is what this bill provides for, but we have not had a chance to discuss it.

When we had our committee meeting—it came on the day after the President sent his message, and it lasted just 3 hours. I had a telegram from the president of the National Farmers Union. He wanted to testify that this bill would hurt the farmers, but he never got a chance. We had no real hearings because the President told the majority members of this House to hold their noses and smile no matter how bad the legislation smelled. And just to be sure, the President sent his emissary to the committee room to make certain that none of the majority gagged in public.

This may sound like melodrama. The shame is that it is not melodrama, it is the truth.

This bill is a fiscal and monetary monster. It has three major purposes. The first is to provide a mechanism for budget gimmickry—by this I mean expensive large-scale loan refinancing in budget deficit years in order to get budget receipts. The second objective is the indirect, undercover expansion of a number of Government loan programs which compete with private credit. The third aim is to reduce the power of Congress by reducing the power of the standing authorizing committees over the day-to-

day volume of Government programs. There may well be a fourth aim because the Federal Government, through the sale of high interest rate participation certificates, can choke the money market, reducing consumer credit lending, mortgage lending and linked industries like homebuilding.

I would like to describe this pooling program in some detail in order to end some misconceptions brought about by the administration's press handouts. Incidentally, the press was briefed on the President's loan-pooling message in the Fish Room of the White House. The President must have a sense of history. This is one of the fishiest programs the administration has ever unwrapped.

The administration handouts are designed to give the impression that this pooling proposal is a conservative way of avoiding increased budget expenditures for new loans while substituting private funds for public funds tied up in existing loans. The whole process is described in language with a very free-enterprising tone to it. I regret to say that all of this is tantamount to fraud. This proposal is not conservative. It is not free-enterprising. It is not straightforward. This program is a mechanism for budget gimmickry and economic trickery all dressed up in fancy language and cloaked in as much secrecy as possible.

The majority knows this very well. If this legislation were any good, the air would echo with administration self-praise and trumpeting. Our committee would have had weeks of hearings while administration witnesses made more noise than a carnival. As it is, the administration is sneaking this bill through Congress with all the fanfare of a grave robbery. There is good reason for this, of course. This bill can survive intense congressional scrutiny about as well as a chocolate bar could survive a hot day.

Through the mechanism established by this legislation, the Government proposes to sell participations in a pool including a Government-wide variety of loans. The Government is not selling the loans. That should be made clear. It is selling participations in a pool of loans. The purchaser gets no title to any of the loans. Private credit is not taking the place of Government credit. Private credit, in effect, is making a loan to the Government with Government assets as a kind of collateral. The private purchasers however, only get notes for their money, they get nothing like a mortgage or possibility of title. By this mechanism, the Government is simply borrowing from private credit sources without going through the Treasury. The administration has selfish reasons for all this trickery.

The administration badly needs to get receipts from private sources this coming fiscal year. They cannot afford to get money through Treasury borrowing. It may be cheaper that way, but it is no good as a budget gimmick. Only private receipts will count as pluses in the budget. Treasury borrowing constitutes no plus on budget ledgers. To pull off the budget gimmick, the administration has to avoid going through Treasury borrowing.

That is why I believe the administration when they say that they are concerned about getting private funds instead of going through the Treasury. They want private funds in no uncertain terms but only because private funds, and private funds alone, can serve as budget receipts so as to camouflage the budget deficit.

All this talk about getting private credit in for its own sake is a lot of rubbish. This administration does not care one iota whether private credit is fattened or flattened. The only thing that this administration really cares about is its own political neck.

What this program is out to do is simple. In the guise of recruiting private capital to take over the burden of Government capital, the administration is offering a program the real thrust of which is—to establish a mechanism through which the extent of a budget deficit can be camouflaged in bad years. This will be done by bringing in private funds through loan refinancing. I do not have to remind you that this is a mechanism for economic and political fraud.

I would like to say at this point that if the administration was really and truly concerned with sharing its numerous loan program burdens with private credit, a good start could be made by cutting back a few of the more unfair Government loan programs. Some of the Government loan programs are openly competitive with private credit. For example, the General Accounting Office reported in January 1966, that some 20 percent of Farmers' Home Administration housing loans are made in competition with private credit sources. The statutes specifically prohibit this. These loans are among those earmarked for the pools.

According to the GAO, the loanmaking abuses take place because the Farmers Home Administration county agents are more interested in empire building than in conforming to the will of Congress. I introduced a bill to tighten the law to require that applicants submit evidence that they had been refused credit on reasonable terms before they can get cheap subsidized credit. This bill has gotten nowhere. It would inhibit the political powergrabbing of the county agents.

I am mentioning the Farmers' Home loan program because it demonstrates the complete hypocrisy of any interest the administration may have in bringing in private credit. Private credit should have been brought in before the unfair Farmers Home Administration loans were made in the first place. Anything else is hypocrisy.

I am not picking the Farmers Home Administration loan program out of the air. It is very relevant to this discussion. It is relevant because the President has proposed to pool \$600 million worth of Farmers Home Administration loans in fiscal 1967. He says so right in the 1967 budget. In my opinion, this is about the last program that ought to be expanded—unless it is overhauled and made fair to private credit. Nevertheless, if the bill we have before us today is passed, the volume of Farmers Home

Administration loans will be increased, and more and more of these Government loans will be made in competition with private credit sources. Frankly, when I think about the Farmers Home Administration attitude toward private credit, I cannot read the pious statements of the administration concerning letting private credit take over the job via the loan pools without getting just a bit queasy. The administration wants private funds for budget gimmickry. Nothing more and nothing less.

It is hard for me to see how anyone can believe that any of the administration's talk about bringing in private credit has a genuine free-enterprise motivation. Just the opposite is true. The pool participation sales mechanism will increase the total volume of Government loans because of refinancing. The net result of the pooling mechanism, far from helping private credit, will be to shrink the percentage of the original loan market available to private credit. The Federal Government will make more and more loans as existing loans are refinanced. Private credit will shrink back into a subsidiary role.

Now I am not saying that some private lenders will not profit handsomely from the pools. As a matter of fact, a number of big institutions will be on the receiving end of nice fat windfalls. What I am saying is that government lending will account for more and more of the original loans made in the United States if we allow the many Government agencies to refinance their paper and thus get funds to increase their loan volume. Private credit sources, like banks and insurance companies will be allowed to buy participations in the government loan programs, but they will gradually be squeezed out of making the initial loans. Ultimately, such a trend would lead to the Government doing all the initial lending with bankers being relegated to the position of coupon-clipping de facto civil servants who can invest only in regulated participations at regulated rates.

Now, when bankers are put in a corner like that, they will not survive long. A lot of bankers and institutions are going to make a lot of money out of these participations because of the fact that private credit is still important in this country, and it still must be catered to. But when more and more of the Nation's credit is socialized, bankers are no longer going to be able to rate windfalls. In Soviet Russia, I believe the Government controls all aspects of finance and investment except that the people are free to buy low-interest government bonds. I would hate to see the day come in these United States where Government paper is the only investment available, but this bill is decidedly a step in that direction.

To move onto another aspect of this program, I think I ought to mention the great expense it entails. It has been admitted, many times, by the administration, that a premium is being paid to avoid Treasury financing so that private money can be brought in. I hope I have made it plain that these funds are being sought not for their own sake but for the sake of budget manipulation. But for whatever reason the private funds

are being sought, they will cost about a half a percentage point more in interest than funds borrowed through the Treasury. This extra premium—which should be labeled "budget gimmickry expense"—is going to cost the American taxpayer millions a year.

This whole pool mechanism is designed to cost extra, unnecessary tax dollars because it is designed to enable the Government to refinance its paper for budget deficit camouflage purposes in just those inflationary budget deficit years when interest rates will be at their highest. This mechanism will not, by its very nature, serve as a mechanism for refinancing government paper in years when the Government can get the best rates. On the contrary, the Government will use the pool refinancing device in just those years when the rates it will have to pay will be highest because of inflationary budget deficits.

This program makes no economic sense if you are not interested in expanding Government loan programs and camouflaging budget deficits. It makes only political sense. I can see why the President wants this program. It is an attempt to keep economic chickens from coming home to roost.

Not only will this program hurt the taxpayer by soaking him for high refinancing costs in just those years when refinancing is most expensive, but it will hurt him by keeping the Federal budget safe for waste and thus maintaining the need for unnecessarily high taxes.

With this device, the administration can balance budgets. Using this mechanism, the administration can try to justify excess spending instead of recognizing budget imbalances and cutting spending. There are some who will say that this device enables the administration to avoid a tax increase. I say that this device enables the administration to refuse to face up to budget facts. This refusal keeps the budget bloated and the need for taxes higher than it might otherwise be. Excess spending means high taxes—and this program is designed to maximize Federal spending.

I have said that this program keeps the budget safe for waste. It does this and more. Not only does this mechanism bring in receipts which can be counted on the plus side of the budget ledger, it also eliminates the need for certain new obligational authority on the minus side of the ledger. This is double trickery. Sale of \$4 billion worth of participations can knock out an \$8 billion budget deficit. This is accomplished by chalking up \$4 billion more on the plus side and using these receipts, already counted on the plus side, to wipe out the need for up to \$4 billion worth of new obligational authority in the loan programs in question. This is an unparalleled budget gimmick.

The CHAIRMAN pro tempore (Mr. UDALL). The time of the gentleman from New York has expired.

Mr. FINO. Mr. Chairman, I yield myself 10 additional minutes.

Since this kind of gimmickry can knock out a \$8 billion budget deficit with \$4 billion worth of receipts, it can make the budget safe for \$8 billion worth of waste. In this way, the pool gimmick

can give the Government camouflage for spending much more than it takes in. The pool gimmick will make the budget safe for waste. The only way the Government will get the money to pay for this waste is to have higher taxes than would have been necessary if spending had been reduced to cope with a deficit budget. This, then, is a bill which will pave the way for higher taxes. Higher spending equals higher taxes. They go together like a horse and carriage.

Besides contributing to eventual higher taxes, this program is also highly inflationary. It will push up interest rates in the money markets and it will increase Government spending by taking the pressure off budget deficits. All this is inflationary.

I do not see how my liberal friends on the Banking Committee can sit still and swallow this one. They know very well that this program will encourage deficit spending—which in turn results in inflation and more taxes. They know this. They know this is an expensive budget gimmick. They know it well. They know that private credit is not sought for its own sake, but because it offers budget gimmickry opportunities cheaper Treasury financing would not. They know that the American people are going to pay through the nose here to save the President's political neck. What is worse, they know that this program will hurt homebuyers and millions of other "little people" who need to borrow money. Who will it help? They know that, too. This program will help the President and it will help the fat cat bankers and insurance companies who are going to buy the participation certificates. The fat cats are going to get a windfall. Fat cat cooperation has been bought in advance so that the President can have a budget gimmick to save his political hide.

Why do I say this? I say it because the little guy, the man on the street, has been cut out of this windfall. The administration is limiting participation certificates to denominations of \$5,000 or over. If you don't have \$5,000, then you have to buy Government bonds. You can believe all the patriotic posters and line up at the Government window to buy Government bonds. You will not get a high interest rate being a patriot. You will do much better if you sneak around to the back door where the President is going to give the fat cats 5½ percent on their money just for clipping coupons and helping the President of the United States put one over on the people.

Because the fat cats will get such a big windfall from putting their millions and billions in participations, I think we can be sure that they will lose any desire they now have—not that they have much now—to put their money into mortgages. Even if the Government tries to expand its mortgage insurance program, it will get nowhere because participations are more attractive to investment funds. Who would buy VA-insured or FHA-insured mortgages at 5¾ percent, assuming service costs or paying a one-half percent service charge, when you can get 5½ percent on participation certificates just by clipping coupons? This pool gim-

mick is going to clobber the mortgage market. That is why the President of the National Farmers Union wanted to testify against it. That is why the mortgage bankers and construction people are suspicious. But none of these people got a chance to appear before our committee. Only a magician could have made it before our committee. We had one day of hearings. The administration closed the lid on the garbage pail the day after it was opened. Nobody had a chance to say a word.

Mr. GROSS. Mr. Chairman, will the gentleman yield?

Mr. FINO. I yield to the gentleman from Iowa.

Mr. GROSS. First, I want to commend the gentleman from New York for his statement. Now, am I correctly informed that this dinky print of 60 pages constitutes all of the hearings, although at least 30 of those pages are dedicated to letters of transmittal and statements by administration witnesses? Can this possibly constitute the hearings on a bill of such ramifications as this measure?

Mr. FINO. I am sorry to inform the gentleman from Iowa that he is correct. We only had about 3 hours of hearings on this bill. As a matter of fact, the Committee on Rules had more protracted hearings on this legislation.

Mr. GROSS. This is really fantastic.

Mr. FINO. It certainly is.

Mr. GROSS. I cannot recall any other legislation where the Committee on Rules held longer hearings than the committee which has the legislation in charge. In my time in Congress I have never seen anything like this. I think this attests to the gentleman's statement that this is one of the most fraudulent bills that was ever brought before the House of Representatives.

Mr. MULTER. Mr. Chairman, will the gentleman yield for a correction?

Mr. LATTI. Mr. Chairman, will the gentleman yield?

Mr. FINO. I yield to the gentleman from Ohio.

Mr. LATTI. First of all, let me commend the gentleman from New York on the very forthright statement that he is making here today. It is one of the best statements that I have heard on this bill. I listened to the testimony before the Committee on Rules, and I just want to say it was pointed out before the Committee on Rules that there were several serious defects in this legislation and some amendments were even proposed before the Committee on Rules. That is something unprecedented and points up the seriousness of this matter. This legislation is in need of extensive legislation surgery. I would like to call to the attention of the House a May 10 UPI wire story, which reads as follows:

WASHINGTON.—Organized labor joined Republicans today in seeking defeat of President Johnson's high-priority plan to refinance Government-sponsored loan programs with private investments.

A labor memo was sent to Congressmen urging defeat of the financing plan whereby the administration would sell \$4.2 billion in shares of Government loan programs for farmers, veterans housing, education, and colleges. Through the private participation in the Government programs, the adminis-

tration will be able to reduce its budget expenditures.

Angus McDonald, director of research for the Farmers Union, said that the union, the National Grange, and the AFL-CIO "are opposed" because it will "increase the cost to the taxpayer while lining the pockets of the big city bankers."

The House Banking Committee, which hopes to bring the measure to the House floor tomorrow, agrees that the proposal will hike interest costs the Government will have to pay to private investors but said the increase will be "relatively minor" compared to Government interest costs for conventional financing.

The proposed bill has passed the Senate but has been bogged down in the House Rules Committee which is expected to give a green light tomorrow for floor action.

The labor opposition gave encouragement to Republicans who plan an all-out fight to defeat the measure which they have attacked as a "gimmick" to make the budget look smaller.

The labor letter said the measure "will cause an increase in money cost on all loans not covered by ceilings. It will increase pressure to do away with or raise interest ceilings. It will tighten money in the home mortgage market. This bill is not in the interest of farmers and others who depend on credit."

This story indicates the widespread opposition to this bill. The gentleman referred to this opposition earlier. I agree that this bill is for the "fat cats" and has nothing in it for small investors or the taxpayers.

Mr. FINO. I want to thank the gentleman from Ohio.

Now I yield to the gentleman from New York.

Mr. MULTER. Mr. Chairman, in the gentleman's colloquy with the gentleman from Iowa he agreed with him that we had very short hearings on H.R. 14544 in the Committee on Banking and Currency. While I am sure the gentleman made the statement in the best of faith and with the highest of motives, and while I would not call his statement fraudulent, it was certainly erroneous, because H.R. 14544 is in principle the counterpart of S. 2499 on which the Committee on Banking and Currency conducted 4 days of hearings which are printed to the extent of 300 pages. We certainly did not have to repeat all of that when we had the hearings on the bill now before us.

Mr. FINO. The gentleman knows full well that the hearings we had on the Small Business Administration concern themselves only with small business. This hearing of 3 hours that we had on this legislation we are considering today lasted only 3 hours. There were other agencies that were included, and there were people that wanted to testify before the committee and were not given the opportunity.

Mr. MULTER. Mr. Chairman, will the gentleman yield further?

Mr. FINO. I yield further to the gentleman from New York.

Mr. MULTER. Let me call the gentleman's attention to the fact that while we were dealing with SBA there we considered the counterpart of this bill, the Senate bill that was before us at the time, we had as witnesses the Director of the Bureau of the Budget, the Under

Secretary of Treasury, the President of the FNMA Corporation, and a host of other witnesses.

There are two and a half pages of index naming all of the witnesses that were before us.

The CHAIRMAN. The time of the gentleman from New York has expired.

Mr. FINO. Mr. Chairman, I yield myself 3 additional minutes.

Mr. GROSS. Mr. Chairman, will the gentleman yield at this time?

Mr. FINO. I would prefer not to yield to the gentleman from Iowa until I finish my statement.

Mr. Chairman, one of the things the administration has done to push this bill is to collect letters in support of it from veterans' organizations. The administration has told the veterans' groups that this pool proposal will help them in some vague way. Actually, VA-insured mortgages are already eligible for pooling and refinancing. The administration has given the veterans' groups a bill of goods. They have no reason to care about this bill, and I know they do not.

I am on the Veterans' Affairs Committee, and I think I am considered a pretty good friend of the veterans' groups. This bill does nothing for the veterans of America. It only benefits the President and the fat cats.

I am really amazed that the majority of the Banking Committee can sit here and support this legislation. I would like to ask the distinguished chairman of the Banking Committee, the gentleman from Texas, how he can forget his farmers and would-be homebuyers back home and support a program that will give a windfall to his bitter enemies, the big bad banks of New York? How can he vote for a program that mocks the poor people who scrimp to buy Government bonds by letting only the fat cats qualify for the big profits? How can he vote for a program that gives the little guy inflated prices and taxes, plus high interest rates, while the fat cat gets a windfall that will take most of the pain out of the expansion of socialized credit?

Only a blank-check Congress would vote this kind of program just to help the President pull a budget gimmick. I would also note in passing that Congress will be voting away some of its own power if it passes this bill. The standing authorizing committees will clearly lose effective control over the volume of agency loan programs. The only safeguard will be the amount of refinancing involved.

I trust that the majority will take this unperfumed view of the pools legislation to heart. I trust the Congress will not vote for higher spending, inflation, higher taxes, higher mortgage costs to the little guy and a windfall for the fat cats. It would be a shameful thing for Congress to do.

If the President is not above doing something like this, I am confident that the Congress is. I urge the defeat of H.R. 14544.

Mr. MULTER. Mr. Chairman, I yield myself 10 minutes.

(Mr. MULTER asked and was given permission to revise and extend his remarks.)

Mr. MULTER. Mr. Chairman, I have heard a lot of noise in the last day and a half during the debate on this bill.

I do not object particularly in an election year to political demagogery. I do not blame my Republican friends for trying to make out a political case. But, listen carefully to some of the amendments they will offer when we get to the 5-minute rule and see how inconsistent they are.

You have heard this bill attacked by name calling and the use of adjectives that were better reserved for use outside of this Chamber. They accuse us of concealment and deception—

Mr. HALL. Mr. Chairman, in order that we may have the whole truth, I make the point of order that a quorum is not present.

The CHAIRMAN pro tempore (Mr. UDALL). The gentleman from Missouri makes the point of order that a quorum is not present. The Chair will count. [After counting.] Fifty-one Members are present, not a quorum. The Clerk will call the roll.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 103]

Baring	Hansen, Wash.	Pool
Barrett	Harvey, Ind.	Powell
Byrne, Pa.	Hawkins	Resnick
Cabell	Hébert	Roncallo
Chelf	Holland	Rooney, N.Y.
Clark	Howard	Rooney, Pa.
Colmer	Jones, Mo.	St. Onge
Cooley	Leggett	Scott
Corbett	McCarthy	Smith, Calif.
Craley	McCulloch	Sullivan
Daddario	McEwen	Teague, Tex.
Dague	MacGregor	Thompson, N.J.
Dawson	Mailliard	Toll
Dent	Martin, Mass.	Tupper
Dickinson	Mathias	Van Deerlin
Diggs	Michel	Watkins
Downing	Miller	Watson
Ellsworth	Morgan	White, Idaho
Feighan	Murray	Williams
Flood	Nix	Willis
Gray	O'Brien	Wilson.
Green, Pa.	O'Konski	Charles H.
Hagan, Ga.	Olsen, Mont.	Wright
Halleck	O'Neill, Mass.	
Hansen, Idaho	Poff	

Accordingly, the Committee rose; and the Speaker having resumed the chair, Mr. KEOGH, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H.R. 14544), and finding itself without a quorum, he directed the roll to be called when 358 Members responded to their names, a quorum, and he submitted herewith the names of the absentees to be spread upon the Journal.

The Committee resumed its sitting.

Mr. MULTER. Mr. Chairman, while I did not instigate the point of order which brought the Members to the Committee, I must say that I am flattered by the fact that the making of a point of order was prefaced by the gentleman who made it by the statement that he would like to have Members hear the whole truth.

Mr. Chairman, I was about to say that there have been charges made against those who sponsored this bill of concealment, sleight of hand, trickery, and deception.

Mr. Chairman, I do not know of anything that has had the light of day as much as and for as long as this bill has

had it. The accusations that have been made against it cannot be sustained.

As I have indicated earlier, Mr. Chairman, this subject has been under discussion in public and in private and in our committee for a long time.

What we are doing here is not something new. It is something that the Government has been doing for many, many years.

Mr. Chairman, when the committee had before it—I mean the Committee on Banking and Currency had before it—S. 2499, which is the counterpart in principle of H.R. 14544 which we are considering today, we took some 300 pages of testimony over a period of 4 days. The list of witnesses is contained in a 3½-page index, prefaced to those hearings.

All those who wanted to be heard by the committee on the subject were heard, both pro and con.

Mr. Chairman, the statement that is made to the Members of the Committee of the Whole House that there was a longer hearing held before the Committee on Rules than there was before the Committee on Banking and Currency on this bill is accurate as far as it goes. But it does not go far enough. The fact is that the principle and details have been fully and fairly discussed. Our Republican friends have insisted and will muster every possible fact and argument available. This hardly smacks of secrecy.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. MULTER. In a moment.

Mr. WIDNALL. The gentleman has just made a direct statement about the hearings on this bill.

Mr. MULTER. Yes, I did. And, when I say this bill, I mean H.R. 14544 and its counterpart, S. 2499.

Mr. WIDNALL. That is not on this bill.

Mr. MULTER. One can quibble over this as much as one likes, but when a bill is introduced on a subject in the other body, and another bill is introduced in this body on the same subject, we are both considering the same principle. Now quibble as much as you like about it. An attempt to legislate a method of conduct for an agency in selling Government obligations and participations therein, is the same whether it concerns 1 Government agency or 50 agencies of the same Government.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. MULTER. I will yield as soon as I get through with my statement. I asked the gentleman to yield to me when he had the time and he did not see fit to do so. I asked the gentleman who preceded him to yield to me when he had the floor and he refused to do so. When I get through with my statement, I will yield to anybody who has a question to ask and answer it and answer anything that anybody says to the contrary of what I say here.

The fact of the matter is that this was not done in secret. It was done out in the open. If Members who are opposing this bill did not hear the President's message when it was read by the Clerk of the House, then know that it was

spread upon the CONGRESSIONAL RECORD in full—then go and read it before talking anymore about secrecy.

If you do not know what is in the bill, I say, read it. If you do not know what is printed in the hearings, I say to you, read the record of the hearings. They come here and try to make charges that may sound very fine when they are making political speeches, but remember, the people back home can read. They will read this debate. You cannot expunge this debate from the RECORD which is being made here for them to read. When they do read it, they will know who is telling the whole truth.

Now let us consider this for a moment without all the adjectives that have been used. Let us consider what the bill does and what we are trying to do here.

At the outset, understand that the Small Business Administration, the Export-Import Bank, the Veterans' Administration, Fannie Mae, FHA, PHA—the Public Housing Administration—

Mr. WIDNALL. Mr. Chairman, will the gentleman yield in the connection?

Mr. MULTER. Mr. Chairman, I do not yield.

Mr. WIDNALL. That is not in the bill. Where is it?

Mr. MULTER. Read the bill and hearings and you will find what is in the bill and what we are talking about.

Everyone of these agencies that I have mentioned and others that I have not mentioned have been carrying out this identical practice which we are trying to correct and control by this bill.

They have been selling Government-owned obligations as long as the Government has been lending money. As long as the Government has been receiving obligations of debtors for Government loans, these agencies of our Government have been selling them. Call them what you will—mortgages, bonds, or obligations—they are assets which we have been selling and will continue to sell.

When we found during the hearings that we conducted on this subject matter involved in this very bill, we found at least one agency was not doing the kind of job that it should be doing in dealing with Government assets.

This bill is to control every last one of these agencies. By this bill the Congress will make sure that they do not run wild in disposing of these obligations that are owned by the U.S. Government.

You can put it any way that you like when you discuss the budget. You can put it any way you like in doing the bookkeeping. The fact of the matter is that when the Government borrows money and issues its obligation whoever owns that obligation has an asset. Likewise, when the Government lends money it receives an obligation to repay the money. That is an asset that the Government owns.

You should be the first ones to try to get those obligations that are owned by the Government into the hands of those people who can afford to buy them and who can afford to hold them.

There has been considerable doubt raised here as to what has been happening to the controls which we, the Congress, exercise over the Federal lending

programs. Let me reassure any and every Member who wants to be reassured, that this Participation Sales Act not only will maintain the controls that we now have but it will extend those controls to the process of pooling these assets of the Federal portfolio which will contain the loan paper held by our various lending agencies.

Three broad controls are included in this bill.

First, authority to use funds from the sale of participations in order to make the new loans would be limited.

I repeat—that authority would be limited.

The funds will be permitted to be used to make new loans only to the extent that agencies involved are already authorized by the Congress to make such new loans and only to the extent that we have appropriated money with which to make those loans.

The bill provides that the proceeds from the sales of participations must be dealt with as existing law requires that proceeds from sales or repayments of loans be used.

Second, an appropriation act will be required before any agency will be authorized to place any of its loans in a pool for sale. There is a reason for that. Yes, we are going to sell some of these obligations so that the person who buys them can receive an interest rate return or yield that will be larger than the borrower is paying.

Maybe you do not want to help the farmers or the people who have suffered from some disaster—those people who by the law that we passed get loans at less than the going rate of interest—some of these borrowers pay only 3 or 4 or 5 percent interest per annum.

But in order to sell those loans to the general public or to the pension funds or to the insurance companies, we must give them a higher return as demanded by today's market. If we authorize this action and appropriate the difference, we will authorize and permit these loans to be sold so that the person who owns them will get the going rate. The U.S. Treasury will subsidize the difference.

If you do not want these loans sold, if you do not want the insurance companies and the pension funds to invest in these obligations, if you do not want to make more money available at low-interest rates for housing, education, rural electrification, and disasters, then do not appropriate the money for it.

As originally drafted, this bill provided that prior congressional authorization for the sale of participation certificates would be required only if the assets pooled bore interest rates below the rate at which the participation certificates could be sold in the market. The intention was, and still is, that the Appropriations Committee should consider any sale of certificates where there would be need for appropriations.

The administration and the Committee on Banking and Currency—at least the majority of the committee—have agreed to an amendment proposed by the minority side—and I hope they will go along with their own proposal—which will have the effect of strengthening the congress-

sional control over all of our credit programs. That amendment will provide that no sale of participation certificates on behalf of any agency can be undertaken without prior authorization in an Appropriation Act, which the Congress will have to pass. That Appropriation Act will make up any prospective deficiency between earnings on the pooled loans themselves and the requirements for servicing the participation certificates.

Finally, although title to the pooled loan would pass to FNMA in trust, the lending agency would retain custody of the servicing of its loans. I wish to stress that point. The lending agency would retain complete administrative control over its programs. Let me reemphasize, though, that such control does not include the power to extend any agency's power, authorization, or appropriation. Every agency must act within the limits of its authorization as further limited by its appropriations.

To be specific, take the Small Business Administration as a typical example. We have authorized and appropriated about \$4 billion that the Small Business Administration can loan. Once they get to that \$4 billion, they cannot make another loan. If we sold every one of the \$4 billion of loans that they have made to the general public, the money would go into the Treasury. If those loans are to be sold to yield a higher interest rate than they bear, we will have to appropriate the difference before they can be sold. Beyond that \$4 billion limit already set by our duly enacted authorization and appropriation, that agency cannot lend another dollar.

We in the Congress, therefore, will retain all the control we have now over the lending programs through the appropriation process as well as by our oversight duties and our legislative powers. Specifically this bill—I repeat—will not authorize any agency to make more loans than they are authorized to make now. The aggregate amount of such loans would not be increased by this bill. This merely sets up FNMA as the sole seller of these obligations. We do that because this proposal will now eliminate the competition which exists between these agencies which we, the Congress, have authorized to sell, and which are actually selling the obligations of the United States. These agencies have the right to sell them now. They compete with each other on the open market.

When FNMA is made the trustee, it will become the sole agent of the Government to sell them. There will be no competition between the agencies on the market in the sale of these securities. However, there will be much greater competition in the market place and among prospective purchasers—the more people that want to buy, the lower the interest rate.

We will have thus eliminated one of the very vices that has been shown to exist in at least one of these agencies in the sale of these assets. We found during these hearings—and they are here for Members to read—that SBA on one occasion called in a single broker—or

underwriter, if we want to call him such—and turned over a part of its portfolio and said to him "For a fee, dispose of them."

We will have no more of that. FNMA will not pay any brokerage to anybody to make such sales. FNMA will seek out the pension funds and the insurance companies, or whoever wants to buy them, at the best rate obtainable. Bear in mind, the best rate obtainable will be in accordance with the demands of the market.

Let me indicate one thing more. There is no better anti-inflationary tool than the one we are setting up here and now by this bill. Among other things, the agency which is permitted to sell these obligations will sell them when the market permits. It will sell them only when there is an excess of money that should be withdrawn from the market.

As we have heard so often from those who are opposing this bill today, we are running into a runaway boom prosperity, inflation is taking hold. They tell us time and time again, inflation is too much money chasing too few goods. If there is too much money around—and I am not ready to concede that there is—then when there is too much money around, this agency can offer those obligations of the U.S. Government for sale and draw out of circulation some of that excess money, thereby acting as an anti-inflationary tool.

When the market is the other way, and interest is at a low rate, we can then borrow more money at the low rate and lend again at the low rate and avoid any sales.

Mr. HANNA. Mr. Chairman, will the gentleman yield at that point?

Mr. MULTER. I yield to the gentleman.

Mr. HANNA. Mr. Chairman, I think the gentleman is making a very important contribution to this entire matter. Is it not true that FNMA sells mortgages as part of its function at the time when the market can absorb those mortgages? Is it not true FNMA has not been selling mortgages, but is rather at this time buying mortgages?

Mr. MULTER. The gentleman is correct. He emphasizes the point I tried to make.

Mr. HANNA. Is not FNMA selling some of these participations at this time?

Mr. MULTER. There is no question about that.

Mr. WIDNALL. Mr. Chairman, I yield 10 minutes to the gentleman from California [Mr. DEL CLAWSON].

(Mr. DEL CLAWSON asked and was given permission to revise and extend his remarks.)

Mr. WIDNALL. Mr. Chairman, will the gentleman yield to me?

Mr. DEL CLAWSON. I am happy to yield to the gentleman from New Jersey.

Mr. WIDNALL. Mr. Chairman, I would like to correct a few inaccuracies that wandered into the RECORD as a result of the previous speech by the gentleman from New York.

The gentleman made the flat statement that the committee had more hear-

ings on this bill, more time in hearings on H.R. 14544 than was devoted to the bill before the Rules Committee. He tried to combine the time that was used by the committee in hearings on the Senate bill 249, which is not a similar bill. It is not the same bill.

For the record, I have in my hand Senate 3283. That is the same bill as H.R. 14544. That bill is resting on the Speaker's desk right now. If we complete action on this, that will be the bill that will be called off the Speaker's desk. It is not Senate 2499. There should be absolutely no confusion over that.

There are some other obvious inaccuracies. The gentleman spoke about the fact that the little investor, the small investor, is now going to have a chance to invest in the very fine participations issued through FNMA. The Government of the United States is now spending thousands of dollars on advertising the 4.15-percent yield Government bonds for the small investor.

That is 4.15 percent. It is on radio. It is on television. It is in full-page ads in the newspapers.

What will this do? It will permit the large investor, the big investor who has from \$5,000 up to \$1 million, without any effort to get 5½ percent, with no lid on the amount. This is big, high interest frozen in for the profit of the big investor, who really assumes no risk or expense in order to obtain his participation.

I consider it outrageous that the average citizen is not included, if the Government is going to pay 5.5 percent. Why not jack up the 4.15 percent interest on U.S. savings bonds, or raise the ceiling now current at 4¼ percent on Government bonds.

Mr. DEL CLAWSON. I thank the gentleman for his contribution and for making the record clear.

Mr. Chairman, occasionally during the course of debate when difference of opinion is dramatically pronounced as has been demonstrated on the legislation before us today, perhaps others have experienced the insatiable desire that I feel now to express thoughts and ideas so clearly that every Member of the House might be influenced and convinced of the validity of the arguments presented.

As a comparatively new Member of Congress my participation in debate has been limited to those measures on which I felt my contribution would be helpful to other members of the committee. This is one of those infrequent occasions.

No Member should vote on this bill or any amendment thereto without reviewing the minority report. If for no other reason than the failure of the committee to uphold the high standards of this greatest of all deliberative bodies, the bill ought to be returned to the committee for adequate and complete hearings. The proposals, when properly considered with testimony from additional witnesses familiar with the details and mechanics of handling sales of beneficial interests and participations, might possibly be revised and amended to meet the objections. The floor of the House is not the place to attempt the complex

revisions necessary to make this bill the type of legislation to which all of us can ascribe our support.

Many questions need the attention of the committee, not the least of which is the method of pooling the "participations." Is it proposed that FNMA would accumulate loans from a number of different agencies, combine them in the same pool and then issue certificates against a variety of loans? Or is it contemplated that loans from separate agencies will be pooled together without intermingling?

Although loans may be mixed and placed in the same "bundle," with differing interest rates and a variety of loan paper from small business to college housing with the possibility of one or more of these loans "going sour" resulting in foreclosure, the management and overhead cost is the obligation of the Federal Government, since the investor in a "participation" has no recourse on the collateral. With the wide variation possible in pooling these loans, even though the bad loan is replaced with a good loan, constant replacement may very well result, including the necessity of reconciling differing maturities, changing interest rates, and so forth. This constant management, together with collection problems as they occur, is, as I understand the bill, the responsibility of the agency originating the direct loan placed in the pool. The holder of a "beneficial interest" or "participation" would have no risk, nor any management obligation and the expense attendant thereto.

FNMA, we have been told, and the evidence is documented, specifically states in their offering that the instrument is not an obligation of the U.S. Government, yet any purchaser of a "participation" quickly recognizes that the Federal Government guarantees the repayment of principal and interest, and the replacement of bad collateral, and that these guarantees are just as valid as if the full faith and credit of the United States were pledged. No purchaser of a "participation" will think otherwise under the terms of this legislation. Yet, we are expected to use this device as a "sale of assets" even though no title passes and the Government continues its obligation to pay. The attempt to separate these participation sales from the budget and debt ceiling under the circumstances described is an affront to the American people and a subterfuge of fiscal policy. Before this system is adopted some method should be set up to inform the American people how many participations are sold, the effect of such a sale on the budget deficit, the debt ceiling, the extra cost to the taxpayer for using this financing method, and so forth.

Another problem that is unresolved and troubles me is the existing language of the FNMA Charter Act and its potential effect if this legislation is passed.

Under the existing FNMA Charter Act, loan assets which may be pooled are limited to obligations of the housing agency or constituent units thereof and mortgages in which the United States or

any other agency has an interest. When Wall Street bond counsel got through with that language the bill before us proposes that the scope be vastly broadened to include "and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations'."

If you examine page 2 of the bill, lines 11 to 14, that language provides that securities commonly known as a security are also eligible for pooling with FNMA. Now, certainly, a common stock is a "type of security" which is "commonly known as a security." So, beyond question, agencies could pool the common stocks they hold in numerous Government assistance programs. The provision then goes on to the ridiculous extent of declaring in effect that a common stock is a bond by stating "hereinafter in this subsection called obligations."

No place in testimony before the four committees, which each in their own way held hearings on the bill, is there any intimation that stocks held by Government agencies would be subjected to pooling with FNMA for sale of participation certificates. No one in the administration has ever indicated that there was any intention to do so. In fact, representatives of the administration as well as the bill itself talk only of pooling mortgages and loans of Government agencies.

I have suggested, and administration representatives have agreed, that there is no need for this loose language in the bill. To correct this wide-open provision, we should strike that Wall Street bond counsel gobbledegook, which in effect says a stock is a bond, and in place of it, use simple English language to say that "mortgages and other obligations" will be the types of financial assets that are eligible for pooling with FNMA.

Unfortunately, the time allotted permits mention of only a few of the more confusing, and ambiguous areas of this highly amorphous proposal that remain undefined. However, these should be sufficient to alert Members to the need for this bill to be returned to the Committee on Banking and Currency giving the committee an opportunity to complete its work before bringing legislation to the floor of the House.

Another question which has yet to receive a clear answer asks whether or not the proceeds of these participation certificates can be used by the lending agency for additional loans beyond the authorization ceiling. Less than 2 weeks ago over in the other body, the manager of the bill, Senator MUSKIE, responded to this query in this manner, and I quote:

I have spent a good deal of time attempting to get the facts so that I could answer this question, which I expected to be asked, as clearly and precisely as I could. * * * The intent of the bill—and this I can state clearly—is that as to those programs where the proceeds of the sales of direct loans can be used for new loans under present law, it is the intent of this bill that the proceeds of the sale of participation certificates could be used to the same effect.

Mr. BENNETT. As though they were sales of the loans themselves?

Mr. MUSKIE. That is correct. In those programs where that is possible now, that is the intent of this bill.

Now let me ask you, because it has not yet been satisfactorily answered, what are the programs and in what agencies is this possible now under existing law?

Just one final observation because my time has expired, I am inclined to agree with Senator YARBOROUGH, who during debate in the other body on this bill stated, and I quote:

Madam President, section 8 of the proposed Participation Sales Act authorizes a study of the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs. After studying the proposed legislation, I have come to the conclusion that we would perhaps be wiser to enact section 8 and hold the rest of the bill until we see the results of that study.

Why not follow that advice, and in the meantime let the Banking and Currency Committee hold full and complete hearings on the proposal.

And, now, Mr. Chairman, I would like also to comment upon another point, because of a reference made during the course of this debate to the portfolio management. If I may, I would like to draw a comparison between a portfolio held by you or me or any other citizen. You take that portfolio down to the bank and you want a loan. The banker looks at the portfolio. As he goes through the bonds and stocks and whatever other instruments might be there, he says, "I am sorry; I am afraid your portfolio is filled with instruments on which I cannot make a loan. But, you have a rich uncle, an uncle who owns a lot of property in this community. If you get him to cosign this, I shall be glad to make the loan."

Of course, you go to your Uncle Sam and you ask him to cosign the note. He goes along with you. You, in turn, use the loan money which you obtained to buy some more stocks and obtain more securities. You go back to the banker again and want to increase the loan. The same procedure is repeated.

Mr. Chairman, in my opinion, the parallel is properly drawn. In this instance, the portfolio remains the same; in fact, it has actually been increased, and the obligation is still there on the part of Uncle, as well as the nephew. In other words, the portfolio has not changed hands; it has only increased. As he borrowed the new money, he increased the portfolio. And, then, if Uncle goes to borrow money later on to increase his liquidity, the banker is going to ask him, "What obligations do you have?" I am sure he will take cognizance of the fact that he has cosigned the loan of his nephew.

Mr. Chairman, in my opinion, this is the method which we are using in the plain, the simple, the clear terms that we have been asked to use in the consideration of this bill.

Mr. Chairman, I thank the gentleman from New Jersey for yielding additional time.

Mr. PATMAN. Mr. Chairman, I yield 10 minutes to the gentleman from Wisconsin [Mr. REUSS].

(Mr. REUSS asked and was given permission to revise and extend his remarks.)

Mr. REUSS. Mr. Chairman, I rise in support of H.R. 14544, to provide for a program of selling participations in the loans of such programs as the Small Business Administration, college housing, community facilities, and the Farmers' Home Administration.

Congress has authorized these loan programs because it believes that homes for rural people, dormitories for college students, loans for students, and financial assistance to small businessmen is in the national interest. In many cases, Congress has directed that such loans shall be made at a lower rate of interest than the going one.

If we do nothing—if we fail to pass the participation sales bill—these constructive programs will simply dry up. It is impossible for the lending agencies to put themselves in funds by selling off a few of their loans at retail—the market is simply not there, and the interest rate would be prohibitive.

Of course, Congress could vote to terminate small business loans, or college housing loans, or farmers' home loans. But I do not find anyone introducing a bill to do that.

Equally, Congress could enact a \$5 billion tax increase, which would then yield enough to fund these programs for the next fiscal year. But such a tax bill would have a disastrous effect on the economy, and I have not found anyone introducing a bill like that, either.

But sadly, I find our Republican friends lined up almost solidly against H.R. 14544. It is claimed that we Democrats are using a budgetary gimmick, and that we are fiscally delinquent. In fact, here is where we Democrats learned about the participation sales technique. President Eisenhower proposed essentially similar programs in his budget messages of 1954, 1955, 1956, and 1958. Just 2 years ago, the Republican minority on H.R. 6009, a bill to provide for increases in the public debt limit, recommended a similar program for selling Government loan assets to private investors.

And now that we are doing what the Republicans have recommended, they are shouting that we are delinquents. If there is any delinquency, it is the Republicans who have contributed to it.

But really, no one is delinquent. By providing an instrument attractive to investors, the Government can make substantial savings in its programs for farm home loans, college dormitories, and small business loans over what it would cost if we tried to sell off these mortgages one by one.

If there is a criticism of the Sales Participation Act, it is that raising the money through the sale of participations probably costs the Federal Government a fraction of a percentage point more than would direct borrowing by the Federal Government through tried and true instruments like Treasury bills, notes, or bonds. This emerges from my colloquy with Under Secretary of the Treasury Joseph W. Barr in the hearings before

the House Committee on Banking and Currency on the participation bill on March 30, 1966—hearings, pages 160-161:

Mr. REUSS. I will be very brief and somewhat philosophical. To my mind; the overriding consideration in Government financing is the rate of saving to the Treasury, you and the taxpayers. I gather from the testimony of Mr. Weitzel and others that a 5-year Treasury security can now be sold at an effective rate of 4.9 percent, whereas a FFNMA certificate now yields about 5.5 percent.

Mr. BARR. Roughly, correct, Mr. REUSS.

Mr. REUSS. More than a half percent more.

Mr. BARR. That is right.

Mr. REUSS. Outside of mythological considerations and myths about national debt, and so on, why do we not get the money for the Federal Government's needs in the cheapest possible way—which is by courageously asking Congress for appropriations for what is needed; and for what cannot be met out of the current year's budget—to borrow in the method that will yield the lowest possible cost to the taxpayers? We now have seasoned Treasury securities ranging from 30-day bills to 20-year bonds. If we can borrow money more cheaply for those, why do we not do it? If this has to result in a further education on Congress and the public on the national debt, we can save billions of dollars by such education. Why not do it? What is all the mystification about?

Mr. BARR. Mr. REUSS, no question your route is the cheapest route for the taxpayer and the Government. It is not even debatable.

Mr. REUSS. Why do we not do it, then? Why do we not ask for decent appropriations for SBA and put it back in business, and—

Mr. BARR. Yes.

Mr. REUSS (continuing). Pay for what we can with taxes—I would hope a very large amount in this conjuncture—and borrow the rest at the lowest interest rate.

Mr. BARR. The issue which the administration is putting to the Congress and which the Congress will either approve or disapprove is that we are trying to move a lot of these programs from the public sector into the private sector. Now, whether you agree or not this is what we are attempting to do. But unquestionably it is more costly.

Now, it has seemed to me that there has been a certain advantage, and the country has had a great advantage in moving into areas that were originally considered too risky—housing, small business, and many other areas—establishing the risk so that the private sector can take a look at it and then the Federal Government can pull out and move to other riskier sections.

Now, there is a cost involved, Mr. REUSS, and the question that you and the committee must decide for yourselves is whether the cost is worth it; that is to say, the cost of attempting to involve the private sector so that the Federal Government can move to other areas.

Mr. Chairman, I should like to see the administration have an option of raising the \$5 billion or so to carry on these worthwhile Federal lending programs through the next fiscal year by the direct method of Treasury borrowing. Such a method would, over the years, save hundreds of millions of dollars for the taxpayers through reduced interest costs.

Shortly the Treasury will be appearing before the House Committee on Ways and Means asking for an increase in the debt ceiling. Everyone who is interested in economy in Government should support having the Ways and Means Committee and the Congress increase

the debt ceiling by an additional \$5 billion—the probable amount to be financed via the participation sales program the next fiscal year—over and beyond whatever other debt increase is necessary.

Such an increase in the debt limit would let the Treasury use the lower interest direct borrowing route to raise the \$5 billion, rather than the somewhat higher interest direct sales participation program we are here acting on. The taxpayer would be the beneficiary.

And from the budgetary standpoint, there is nothing but mythology involved. Either way you do it, Uncle Sam is in debt for an extra \$5 billion. Either way you do it, these are essentially Government lending programs for college dormitories, farmers' homes, or small business, and the private investor gets into the picture in essence as a lender to the Government. The big difference between the two approaches is that the direct Treasury borrowing approach saves the taxpayer money in interest costs, by forthrightly raising the national debt limit instead of having an equivalent \$5 billion liability on the books outside of the national debt. Some myths are worth preserving, but not when they cost the taxpayers hundreds of millions of dollars.

In short, Mr. Chairman, I urge Members to support H.R. 14544, not because it is the best way of meeting our financing problem, but because it is a whole lot better than any alternative I hear presented today.

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. REUSS. I yield to the gentleman from Missouri.

Mr. CURTIS. Mr. Chairman, I think it should be noted as it has been noted in the minority views as well as in the debate on the floor of the House, the distinction between what was done under President Eisenhower and was indeed recommended by the minority members of the Committee on Ways and Means.

Mr. REUSS. I just wonder what the distinction is?

Mr. CURTIS. Let me state it. It involves an interpretation of what is a sale. The point is made that this pooling operation certainly is not the recommendations of either the Eisenhower administration or the minority on the Committee on Ways and Means.

What the administration has done is taken hold of the title to an idea and then put a false product under that label.

Mr. REUSS. I am sorry that my efforts to be generous toward the Republicans have met with such an uncharitable rebuff. But despite what my friend from Missouri has said, I still want to credit General Eisenhower and the Republicans on the Ways and Means Committee for suggesting the proposition that by cutting investors generally in on these financial assets of the Federal Government, by that device you can save an increase in the national debt.

Mr. CURTIS. Will the gentleman yield further?

Mr. REUSS. I am happy to yield again to the gentleman from Missouri.

Mr. CURTIS. The gentleman is a great rhetorician, and if you should pin praise on the Republicans, it must be taken as from that source.

Mr. MOORHEAD. Mr. Chairman, will the gentleman yield?

Mr. REUSS. I yield to the gentleman from Pennsylvania.

Mr. MOORHEAD. I should like to read to the gentleman a statement appearing in Time magazine, issue of April 29:

Actually, in asking Congress last week for broader authority to sell Government-held loans to private investors, President Johnson was resorting to a revenue-stretching device that was pioneered by the Eisenhower administration.

Mr. REUSS. I join Time in giving credit where credit is due.

Mr. CEDERBERG. Mr. Chairman, will the gentleman yield?

Mr. REUSS. I yield to the gentleman from Michigan.

Mr. CEDERBERG. I wish to get something very clear, although the subject may have been discussed before. I should like to have it cleared up by the gentleman from Wisconsin or the Chairman of the Committee, who have always been proponents of low interest rates. If I had a payroll deduction for Government bonds, how much interest would I receive on those bonds?

Mr. REUSS. You mean what is the rate of interest on savings bonds now?

Mr. CEDERBERG. Yes.

Mr. REUSS. Recently it was raised to something over 4 percent.

Mr. PATMAN. It is 4.15 percent.

Mr. CEDERBERG. If this legislation passes, and I happen to be wealthy enough to be able to buy \$5,000 worth of these participation certificates, how much interest rate will I receive?

Mr. REUSS. You will receive whatever the Federal National Mortgage Association in its judgment decides is the going rate. But, in honesty, that is likely to be more than 4.15 percent.

Mr. CEDERBERG. Around 5.5 percent?

Mr. PATMAN. Mr. Chairman, will the gentleman yield so that I may answer the question?

Mr. REUSS. I yield to the distinguished chairman of the committee.

Mr. PATMAN. The anticipated rate will be one-quarter point to three-eighths of 1 percent higher. But remember that people will profit much more than that, because these bonds are taxable. The income from the bonds or securities would be taxable by every State, local community, city, and political subdivision. They will be subject to taxation in all of those places, whereas on direct Treasury issues they are not.

Mr. CEDERBERG. Savings bonds are subject to tax, are they not? The income tax?

Mr. PATMAN. Well, when redeemed.

Mr. CEDERBERG. I want to get something clear.

Mr. REUSS. Let me respond to the gentleman from Michigan. He makes a point: Savings bonds today, in the past, and I guess in the future, will not yield as much as comparable market instruments. The way to rectify that is to in-

crease the yield on savings bonds, if that is the judgment of Congress. And I might add that was my judgment when, some months ago, we were asked to vote on that question.

But the best way to help the little people who buy savings bonds is by economy in the Government generally, and any way you slice it, the little person will be helped if Uncle Sam can borrow via the participation certificate route, which we are asking today in this bill, as opposed to having to peddle Uncle Sam's portfolio at retail and pay the money market a much higher rate.

So in the interest of helping the little man, vote for this bill.

Mr. CEDERBERG. Mr. Chairman, will the gentleman yield?

The CHAIRMAN. The time of the gentleman from Wisconsin has expired.

Mr. WIDNALL. Mr. Chairman, I yield 1 minute to the gentleman from Michigan [Mr. CEDERBERG].

Mr. CEDERBERG. Mr. Chairman, I wish to clear up this question a little bit. If I understand correctly, the small man who has a payroll deduction to buy savings bonds, gets about $4\frac{1}{4}$ percent and, as I recall, FNMA mortgages sell at about $5\frac{1}{4}$ or $5\frac{1}{2}$ percent.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. CEDERBERG. I yield to the gentleman from Texas.

Mr. PATMAN. You are dealing with limited purchases there. You can purchase only \$10,000 a year I believe. I think recently the amount has been raised, but still it is restricted.

Mr. CEDERBERG. I am lost here, because I cannot understand how the gentleman from Texas [Mr. PATMAN], the gentleman from Wisconsin [Mr. REUSS], and others who have been saying for so long that they are opposed to high interest rates now want to give the big bankers and investors $5\frac{1}{2}$ percent and the small man who has a payroll deduction for savings bonds $4\frac{1}{4}$ percent.

Mr. PATMAN. Mr. Chairman, interest rates are not involved in this issue. The interest rate is not involved. The principle is whether or not we should let these securities be sold to the private sector, and assist small business, farmers and others.

Mr. CEDERBERG. The interest rate is involved, to the taxpayer. This is what I cannot understand. What happened to the gentleman from Texas?

Mr. PATMAN. They just happen to be high now. They may be low later on.

Mr. WIDNALL. Mr. Chairman, I yield 10 minutes to the gentleman from Pennsylvania [Mr. JOHNSON].

Mr. JOHNSON of Pennsylvania. Mr. Chairman, this administration last year at this time was preparing the budget for 1966-67. It would not balance by \$6 billion. So in order to cut down the proposed deficit a bright mind came up with this idea to place Federal assets in a trust and sell a share in these assets to the public by issuing participation certificates. These participation certificates are like a corporation issuing preferred stock which someone has called a polite way to borrow money. This proposed sale of participation certificates is a po-

lite and smart way to get around increasing the national debt ceiling, and at the same time make the budget deficit much smaller.

WHY THE ADMINISTRATION NOW RESORTS TO THIS TYPE OF FINANCING

Aside from the fact that the administration wants to sell \$4.2 billion of participation certificates in order to count this sum as a budget receipt and thus hold the deficit this coming year to \$1.8 billion instead of \$6 billion, there is an even greater reason why the administration wants to resort to this type of financing.

The reason is that there is a statutory $4\frac{1}{4}$ -percent interest ceiling on Treasury bonds sold for maturities longer than 5 years.

The Treasury because of this $4\frac{1}{4}$ -percent interest ceiling tends to do most of its financing in the under 5-year area which, of course, means more frequent trips to the market and the payment of higher interest rates.

This $4\frac{1}{4}$ -percent ceiling has been in effect since April 1918 and the interest was then exempt from income tax, surtaxes, and so forth. Since 1941 the interest on Government bonds is no longer exempt from income tax so that the maximum interest of $4\frac{1}{4}$ percent now is worth considerably less—after taxes—than in 1941.

Obviously, this $4\frac{1}{4}$ -percent interest rate is no longer competitive and Government borrowing has to be in the form of securities with short or intermediate maturities.

For instance, by the end of January of this year the average maturity of salable Treasury securities—totaling \$217 billion dollars—was 4 years and 10 months compared with 5 years and 5 months a year before.

The Treasury would like to see this $4\frac{1}{4}$ -percent ceiling eliminated but, of course for various reasons, mostly political, they are not inclined to ask Congress to eliminate it.

ONE WAY THE GOVERNMENT CIRCUMVENTS THE $4\frac{1}{4}$ -PERCENT INTEREST CEILING

So what are they doing? First of all, they are doing business in short term borrowings, and I am informed that \$91.8 billion of bonds will come due this year and when they reborrow to refinance this sum they will pay over 5-percent interest.

THE PROPOSED PLAN TO GET AROUND THE CEILING

The other clever maneuver is to dump into the already tight financial market these participation certificates which we are being asked to authorize here today.

This plan would operate outside the Treasury. And it would reduce direct Treasury borrowings now and present law does not limit the interest rate on these non-Treasury issues. Nor are they counted as part of the national debt even though the certificates are guaranteed by Fannie May and the maturities are as long as 15 years and more. And the interest rate will be $5\frac{1}{2}$ percent.

ONE OF THE EFFECTS OF THIS PROPOSED FINANCING

Last week we had a bill up in the Banking Committee to outlaw negotiable certificates of deposits issued by banks.

They have grown to about \$17 billion outstanding, with \$16 billion non-negotiable certificates of deposit also outstanding.

The witness in favor of outlawing these negotiable certificates of deposits before the House Banking and Currency Committee was the representative of the savings and loan associations. His argument: These certificates of deposits are being bought up by persons who would normally put their money in savings and loan associations, and as a result there is virtually a money panic in the mortgage money market for funds for the savings and loans associations. Despite the drain upon available mortgage funds, the savings and loans he said would not fight this plan here today. I suppose because the President wants it. But, think of the effect the sales of these \$4.2 billion in participation certificates will have on a now very, very tight money market. If the savings and loans have no money now as a result of $5\frac{1}{2}$ -percent negotiable certificates of deposits, what will happen to them if there is \$4.2 billion of Federal participation certificates also dumped on the market? A virtual mortgage money void will result.

WHAT CAN THE GOVERNMENT DO TO AVOID THIS BILL?

The answer to this dilemma that the Government finds itself in asking for this type of back-door financing is to now reduce all unnecessary spending for giveaway programs which will make this dumping of participation certificates unnecessary.

If we cannot cut the budget and save the \$5 billion, and if the Government must borrow money, I believe the Congress should give consideration to removing the $4\frac{1}{4}$ percent ceiling on interest rates, so that the Government can move into the market and sensibly finance the \$91.8 billion worth of bonds coming due, so that it will not be necessary to pay the exorbitantly high interest rates on the short 1- to 5-year money.

DO WE HAVE PEACE AND PROSPERITY?

I heard the chairman of the Banking and Currency Committee yesterday say we have had unprecedented peacetime prosperity for the last 5 years and that the sale of these participation certificates will help to carry on this prosperity. Can the chairman convince anyone that we have had both peace and prosperity in the last 5 years? You ask any mother who today has a son fighting in Vietnam whether we are enjoying both peace and prosperity. Any schoolboy can tell you that our prosperity is because of huge purchases by the Government for defense purposes engendered by an undeclared war.

THIS BILL WILL BE EXPENSIVE TO TAXPAYERS

Another aspect of this program is the added costs to the taxpayer. The Government has already borrowed this \$4.2 billion at $4\frac{1}{4}$ -percent interest to acquire these assets. If we now borrow against these assets represented by this \$4.2 billion, we will have to pay $5\frac{1}{2}$ -percent interest now, or $1\frac{1}{4}$ percent more interest, or \$52.5 million a year additional interest.

CONCLUSION

The sale of these participation certificates will put the Federal Government in the banking business. President Andrew Jackson lead a fight which liquidated the U.S. Bank. We are now by this bill in effect reviving it. And the end will be nowhere in sight. The integrity of the budget and financial soundness of our Nation has been by being forthright, above board, and out in the open for all to see and examine. Let us keep it that way.

Mr. BROCK. Mr. Chairman, will the gentleman yield?

Mr. JOHNSON of Pennsylvania. I yield to the gentleman from Tennessee.

Mr. BROCK. I should like to compliment the gentleman on his statement, particularly in the area of the money market. We are considering in our committee a bill to outlaw certificates of deposits, primarily because they have created an enormous hardship on the homebuilding market through their sopping up of those funds which might be made available to savings and loan institutions. This bill, with equivalent or even higher rates of interest, would have exactly the same effect and be very destructive to the homebuilding market.

Mr. JOHNSON of Pennsylvania. I thank the gentleman.

Mr. PATMAN. Mr. Chairman, I yield 10 minutes to the gentleman from Pennsylvania [Mr. MOORHEAD].

(Mr. MOORHEAD asked and was given permission to revise and extend his remarks.)

Mr. MOORHEAD. Mr. Chairman, comparing Federal financing to family financing can be dangerous, but I think in this case it can be done.

Suppose a family faced a need for funds—let us say for a son's college tuition—in excess of net family income.

One solution might be to eliminate all luxury or unnecessary family expenditures. I know that this Congress and this administration wants to end all unnecessary spending.

Assuming that our hypothetical family has already eliminated all unnecessary spending, the family could eliminate worthwhile spending. The family could decide that the son should not go to college.

This is the type of Government spending which will be eliminated if we fail to enact this bill today.

To return to our family, they could decide to go to the bank and borrow the money. On the Federal level this would be the same as direct borrowing by the Treasury. This would increase our national debt but it would admittedly be slightly less expensive than the procedures proposed in this bill.

Our hypothetical family could decide to raise the college tuition money by selling a capital asset—say the family automobile. Now we are getting closer to what is proposed in this bill.

Suppose in the past father had loaned money to cousin Ted who now is well-to-do but short of cash. Father could sell Ted's promissory note to the bank. It is quite likely that the bank would insist that father guarantee Ted's note.

Now we are getting close to the bill today, and are at the procedure which individual agencies have used in the past.

Suppose father has also loaned money to Uncle Fred and Brother Bill, and finds that he can get a better deal at the bank if he pools all three notes and guarantees them.

Now we have arrived at the basic procedure of H.R. 14544.

However, to continue the analogy, let us suppose that the loans to Ted and Fred were made when interest rates were lower than they are today. The bank would insist that father agree to make payments which when added to Ted and Fred's interest would equal today's market interest rate.

We have now reached in our family's financing of son's tuition the most extreme situation contemplated by H.R. 14544.

Mr. Chairman, I submit that that family financing plan is economically sound and that H.R. 14544 is also economically sound.

Mr. Chairman, I urge the enactment of H.R. 14544.

Mr. BROCK. Mr. Chairman, will the gentleman yield at this point?

Mr. MOORHEAD. I yield to the gentleman.

Mr. BROCK. Let us carry the example to the potential inherent in this bill. Let us say he did sell participations in the three loans to the bank and he got the money and used it. Let us say he reloaned it to three others. Then can he come back and sell it to the bank again and continue turning it over, over, and over again until, instead of \$1,000 he has \$10,000 or \$15,000 of obligations? When do you think the bank will pull the string on this man?

Mr. MOORHEAD. I think the bank will pull the string on him when they think he is in an unsound condition, and this is exactly when the Committee on Appropriations and the Congress will do it. It is exactly the same situation.

Of course, family financing is different from Government financing.

Government can raise taxes.

One alternative to the enactment of H.R. 14544 is a substantial tax increase.

Mr. Chairman, some who oppose H.R. 14544 do so because they believe that failure to enact it will force the administration to seek a tax increase.

Some for purely partisan political reasons want to force a Democratic administration to take such a politically unpopular act in an election year.

Some sincerely believe that the necessity for a tax increase at this time is so clear that the administration must be blackjacked into a tax increase by the defeat of this bill.

To this latter group I say let us fight out directly the issue of whether inflationary pressures require a tax increase or not. Let us not require a tax increase for the wrong reasons.

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. MOORHEAD. I am glad to yield to the gentleman from Missouri.

Mr. CURTIS. What I would say I would not seek to do—and I believe most

of the Members do not—is to increase taxes, but to force the administration into cutting expenditures.

Mr. MOORHEAD. If I thought we could cut unnecessary expenditures by this \$4.5 billion, I would certainly agree with the gentleman, but I believe we are going to have to do it, if we do it, by cutting out community facility loans to small towns, by cutting out assistance to our farmers, by cutting out assistance to small business.

This, Mr. Chairman, I do not believe that this Congress wants to do or should do. These are the worthwhile programs.

The reason for a tax increase is to cool down inflationary pressures.

It does not involve problems of financing Government except to the extent that such techniques are either inflationary or deflationary.

H.R. 14544 is neither. It is neutral. If anything, it is mildly anti-inflationary.

So, Mr. Chairman, let us pass this bill and then face squarely, without any improper pressure, the question of whether our economy needs the cooling effect of a tax increase.

Others avoid the issue of tax increase and argue that we should continue to finance direct Treasury loan programs through Treasury financing.

Mr. Chairman, that would be a radical change of long established congressional policy.

Mr. Chairman, I think that every Member of Congress remembers with particular clarity, matters which first come before Congress when he is a new Member.

On February 4, 1959, when I had been a Member of this body for just 1 month, a bill came to the floor to authorize money for direct home loans for veterans.

There was great deal of opposition to the bill on the ground that the Federal Government should not be in the money lending business, but should limit itself to Government guarantees of private lending.

As a matter of fact, we adopted an amendment, the effect was to say that there could be no direct loans except where—

... the Administrator finds that private capital is not generally available in any rural area or small city or town for the financing of loans under Sec. 1810.

The then minority leader, the gentleman from Indiana [Mr. HALLECK], opposing the direct loan program said:

... In other words, the FHA is developing a program that takes advantage of private capital through the guarantee of the amount and the loans are being made in that fashion.

Mr. Chairman, that is what we are trying to do in this bill before the House today.

In the debate in 1959, the Chairman of the Committee on Veterans' Affairs, the gentleman from Texas [Mr. TEAGUE], in arguing for the direct loan program, anticipated the situation we face today. He said:

I might add that the direct loan program is not a gift to the veterans of our rural areas; it is a profitable investment of the taxpayers' money. The money authorized for the VA direct loan program will be repaid to

the Treasury of the United States with interest.

Although at this point in the debate Mr. TEAGUE was anticipating that the Government would hold the loan to maturity, he certainly recognized the fact that many Members of Congress wanted to see the Government get out of the lending business as soon as possible. Subsection (g) of 38 United States Code 1811 provides as follows:

The Administrator may sell, and shall offer for sale, to any person or entity approved for such purpose by him, any loan made under this section at a price which he determines to be reasonable but not less than 98 per centum of the unpaid principal balance, plus the full amount of accrued interest

Thus, many years ago, Congress established a policy of encouraging the substitution of private for public capital in loan programs.

At that time, Congress also anticipated the possibility of pooling loans for sale and pooling is the heart of the bill which is before us today. Section 1811(g) provides that—

If loans are offered to an investor in a package or block of two or more loans no sale shall be made at less than 98 per centum of the aggregate unpaid principal balance of the loans included in such package or block, plus the full amount of accrued interest.

Thus, was the pool of assets concept born. Furthermore, the concept did not contemplate a transfer which would stand on its own feet. The Congress recognized that a Government guarantee would be required. Congress provided for this in section 1811(g) in the following words:

And the Administrator shall guarantee any loan thus sold subject to the same conditions, terms and limitations which would be applicable were the loan guaranteed under section 1810 of this title.

Mr. Chairman, the bill before us today is designed to apply on a broader scale the very same principles which the Congress adopted many years ago.

I urge the enactment of H.R. 14544.

Mr. PATMAN. Mr. Chairman, I yield 10 minutes to the gentleman from Georgia [Mr. WELTNER].

(Mr. WELTNER asked and was given permission to revise and extend his remarks.)

Mr. WELTNER. Mr. Chairman, I thank the chairman of our committee for yielding this time to me.

Mr. Chairman, I support this legislation. I think it is sound legislation. It is a reasonable means of converting assets into money, in order that money might be directed to programs that are authorized by the Congress, pursuant to the direction and permission of the appropriations process.

I have listened carefully to the opposition arguments today. And it appears to me there is one ground upon which they base their opposition—one ground that is more important than any other. That is, very simply, that the enactment of this bill will permit the deficit to be reduced—very simply, that the implementation of the participation bill will reduce the deficit of this Government.

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. WELTNER. I yield to the gentleman.

Mr. CURTIS. Not the total deficit of the Government—the deficit that is subject to debt limitation. But the U.S. Government will still be in the same position.

Mr. WELTNER. The gentleman from Missouri states his contention on the matter. However, the opposition is based on the ground, as is quite clear from the discussion here today, that by converting these assets into cash, we will be able to diminish the impact of what could, without the sale of any assets, be as much as a \$6 billion deficit for this year.

Mr. CEDERBERG. Mr. Chairman, will the gentleman yield?

Mr. WELTNER. I yield to the gentleman.

Mr. CEDERBERG. If this bill does not pass, what effect will it have on the total deficit for the coming fiscal year—if no action is taken?

Mr. WELTNER. If this bill does not pass, the budget still contains a proposal to dispose of assets, under present programs, in the amount of \$2.8 billion. Now, with the passage of this bill, in fiscal year 1967 we can dispose of an additional \$1.9 billion.

Mr. CEDERBERG. If this bill does not pass, that portion of the deficit would be financed by bonds sold at a 4.15-percent rate; is that correct?

Mr. WELTNER. I believe that the 4¼-percent bond ceiling has been obsolete for many, many years, because we have been unable to sell long-term bonds at that rate. If I am in error about that, then I would like to be corrected. But it has been my understanding that it has been at least 10 years since we successfully sold a long-term issue with the 4¼-percent bond rate. Consequently, the minority views which state in part that the breaching of the 4¼-percent Government bond ceiling rate as an objection to this is then totally irrelevant. We are not breaching that ceiling rate, because to all intents and purposes that ceiling has been inoperative inasmuch as no issues have been made under that.

Mr. HANNA. Mr. Chairman, will the gentleman yield?

Mr. WELTNER. I yield to the gentleman from California.

Mr. HANNA. Mr. Chairman, the gentleman in the well is making a very important point and a very true point. The fact is if we do not pass this bill, we will be in the market for short-term Treasury bills at a percentage above the ceiling. The gentleman is exactly right because the money that we will be getting, to the degree that we get any, will be on less than a 5-year maturity.

I congratulate the gentleman.

Mr. WELTNER. Mr. Chairman, there has been much talk about "gimmickery," and much opposition raised to this bill on the ground that it is some kind of "gimmick."

I have read the minority views. If there is any gimmickry involved in this legislation, it is the basis of opposition, as discussed in those minority views. For example, if you read the minority views, you will see that there is a quarrel with this bill because, it is charged, that

the Postmaster General was present in the hearing room. If that were true, I know not what difference it would make, but it is not the fact. The Postmaster General was not in the hearing room. Here is, at most, some kind of an opposition gimmick.

It is said in these minority views that assets are not sold, they are only refinanced. And here follows a lengthy legalistic viewpoint of what constitutes a sale and what constitutes refinancing. Well, what difference does it make? What difference does it make just how assets be converted into cash, and just where the incidence of title might rest? It makes no difference. And this, too, is a gimmick of opposition.

It is said that a balanced budget can be achieved by bookkeeping, and that is one of the quarrels with this, that a balanced budget can be achieved. It appears to me that that should not be a ground of opposition. That should be a ground of support. How often do we hear from the other side of the aisle the pleas for a balanced budget notwithstanding the biggest budget deficit in the history of the country, some \$12 billion, when there was a member of the other party in the White House?

If this is a measure which can balance the budget, why should that not warrant the support of Members of Congress who express such an interest in a balanced budget?

Mr. BROCK. Mr. Chairman, will the gentleman yield at that point?

Mr. WELTNER. I yield to the gentleman from Tennessee.

Mr. BROCK. I might point out to the gentleman that when we use the term "balanced budget," those of us who favor it, we are speaking of a deficit as an inflation device. In other words, it represents an expenditure of dollars in excess of income. This may balance the administrative budget, but it has absolutely no impact on the reduction of expenditures, this actual cash deficit, the amount of money that is spent in excess of income. That is the difference.

Mr. WELTNER. Is it not money, like any other money, and is it not rather legalistic to say that this is not really money? It is money of the United States Government, and whether it comes from the sale of participation certificates or whether it comes from taxes levied by the Congress, it is still money.

For the life of me, I do not understand these frantic objections to taking assets in a huge and overburdened portfolio, disposing of those in a sound, business-like manner, and then applying the proceeds to the operations of the U.S. Government. I wonder if the gentleman from Tennessee would suggest, rather than disposing of these assets, that we acquire money in the other way, of raising taxes.

Mr. BROCK. No; I would not.

Mr. WELTNER. I thank the gentleman for that response. I certainly would not, either, and I think that this is an opportunity where we in the Congress can make an orderly, sound, careful, planned disposition of the property of the people of the United States, and devote those proceeds to programs de-

veloped for the benefit of the people of the United States.

Mr. Chairman, there is one other matter that I should like to comment upon briefly, and that is contained in the final section of this act, which directs the Secretary of the Treasury to implement a study, and to submit, within 6 months, legislative proposals which would carry out his recommendations, to changing the lending functions of the Government to a guarantee function.

It has been my view that we should do this insofar as it is possible. The success of the FHA is a strong example of that. Where it is possible, our purpose should be, rather than appropriating money and lending it and selling participations in pools of securities representing those loans, to convert, insofar as possible, to a guarantee program.

I believe this will be a valuable report, and I believe that the adoption of this bill would be an indication on the part of the Members of the Congress that here is a new means whereby we might avoid huge loan portfolios. We might avoid the excessive tying up of the people's money in loan programs, and accomplish the same purpose of making available money to borrowers who need it, and who qualify in accordance with Federal programs.

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. WELTNER. I yield to the gentleman from New York [Mr. FINO].

Mr. FINO. Mr. Chairman, the gentleman seems to express some resentment on the part of the majority that the minority are using the terminology "budget gimmickry."

Mr. WELTNER. Yes; I do object to that term.

Mr. FINO. If it is not budget gimmickry, I would like to know what it is. If we borrow through the Treasury that money, whatever we borrow—the gentleman said before it makes no difference how the money is borrowed, we need the money—either we get it this way or through taxes; is that correct?

Mr. WELTNER. I have yielded to the gentleman. He is making a statement at this point.

CALL OF THE HOUSE

Mr. HANNA. Mr. Chairman, a point of order.

The CHAIRMAN. The gentleman will state the point of order.

Mr. HANNA. Mr. Chairman, I think that the points that have been made by the gentleman from Georgia are very important. The debate on this bill is very important. I am rather disappointed to see the position of the House.

I make the point of order that a quorum is not present. I think the Members should be here to hear this colloquy.

The CHAIRMAN. The Chair will count.

Sixty-one Members are present, not a quorum. The Clerk will call the roll.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 104]

Annunzio	Green, Pa.	Powell
Baring	Hagan, Ga.	Pucinski
Barrett	Halleck	Resnick
Bolling	Hansen, Idaho	Ronan
Broomfield	Hawkins	Roncallo
Broyhill, Va.	Hébert	Rooney, N.Y.
Buchanan	Holland	Rooney, Pa.
Byrne, Pa.	Howard	Rostenkowski
Clark	Jones, Mo.	St. Onge
Colmer	Kirwan	Scott
Corbett	Kluczynski	Sikes
Corman	Leggett	Slack
Daddario	McCarthy	Smith, Calif.
Dague	MacGregor	Stubblefield
Dawson	Martin, Mass.	Thompson, N.J.
Dickinson	Mathias	Toll
Downing	Miller	Tupper
Ellsworth	Morgan	Watkins
Evins, Tenn.	Morrison	Watson
Fallon	Mosher	Whitener
Farnum	Murphy, Ill.	Williams
Flood	Murray	Willis
Fulton, Pa.	Nix	Wilson
Glaime	O'Hara, Ill.	Charles H.
Gilligan	Olsen, Mont.	
Green, Oreg.	Pool	

Accordingly, the Committee rose; and the Speaker pro tempore having resumed the chair, Mr. KEOGH, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee having had under consideration the bill H.R. 14544, and finding itself without a quorum, he had directed the roll to be called, when 354 Members responded to their names, a quorum, and he submitted herewith the names of the absentees to be spread upon the Journal.

The Committee resumed its sitting.

The CHAIRMAN. The gentleman from Georgia is recognized.

Mr. WELTNER. Mr. Chairman, prior to the point of order I had been discussing gimmickry—not the budget gimmickry charged by the minority here, but the gimmickry contained with the opposition to this measure.

I want to point out another factor that comprises this opposition gimmickry. On page 22 of the report, there is in bold, black type this statement: "The debt limit will become meaningless."

Mr. Chairman, anyone who has read this bill knows that it does not amend the legislation that sets the debt limit. It does not affect the ability of the Treasury to borrow money as a direct obligation of the United States. In no way does it affect the debt limit.

It is true that by the sale of participations, which carry with them some contingent liability on the part of the United States, there will be some effect upon the total contingent liability of the Government.

But, Mr. Chairman, if that is to be a reason for opposition, then surely the minority would have to agree that we must put the FHA under the debt limit, and that all insured loans carrying with them the guaranty of the FHA must come within the debt limit.

I have not seen anyone arise on that side of the House to make that suggestion.

So the truth of the matter is that, even on a casual examination, we will see that the debt limit would not become meaningless by this bill.

In fact, the debt limit is not in the

slightest affected by this proposal. Were this bill enacted, the debt limit would remain what it is until changed by due process of the U.S. Congress.

Mr. HANNA. Mr. Chairman, will the gentleman yield?

Mr. WELTNER. I yield to the gentleman from California.

Mr. HANNA. Mr. Chairman, I commend the gentleman from Georgia, not only for the statement he has made but also for his being the author of the proposal which puts into the bill a study to be made of this program.

I ask the gentleman this question: Have you not been somewhat surprised that the Republicans have made no reference to the \$5.2 billion worth of participation loans that have gone on and that will go on, whether this bill is passed or not?

Mr. WELTNER. I might respond to the gentleman that I have been astounded. In the 88th Congress, when we adopted the conference report on the housing bill, and participation sales were contained therein, there was no cry of "budget gimmickry." In fact, there were over 100 Republican votes supporting that measure.

I have been surprised to see that there has been no reference to any cry of "budget gimmickry" with the adoption of the 1965 housing report in this 89th Congress, wherein the same provisions were made. Certainly there has been no cry of "budget gimmickry" with the sale of \$3.3 billion of participations by the Federal National Mortgage Association and the Export-Import Bank of Washington.

Mr. WIDNALL. Mr. Chairman, I yield 10 minutes to the gentleman from Tennessee [Mr. Brock].

(Mr. BROCK asked and was given permission to revise and extend his remarks.)

Mr. BROCK. Mr. Chairman, let me say first, in response to the gentleman from Georgia and the gentleman from Pennsylvania, I do not rise in opposition to this bill because I want a tax increase or for partisan political reasons.

As a matter of fact, I do not rise in opposition to the principle involved in this bill at all. I agree we should mention the fact that we do have participation sales going on today.

If certain amendments are adopted, which would clean up this bill, as the committee should have cleaned it up; if we will take out the loophole providing for a constant revolving fund being allowed to these various agencies outside the authorization limitations placed upon them by the Congress of the United States; if we can put a limit upon the interest rate, so that we will not disrupt the money markets and destroy the housing industry of this country; then I personally agree we should involve free enterprise to the maximum possible degree, and I would support this kind of legislation. I want that to be a part of the RECORD.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from New Jersey.

Mr. WIDNALL. I should like to call to the attention of the gentleman from Georgia [Mr. WELTNER] the fact that I believe the RECORD will show, in 1964, the vote about which he spoke was one in connection with an omnibus housing bill, and the section about which he spoke was never considered in the House of Representatives. There were no hearings on it. It was placed in the bill in the Senate. It came back to the House in a conference report, as a part of the general housing bill.

That is the vote I believe the gentleman spoke about.

Mr. WELTNER. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from Georgia.

Mr. WELTNER. I thank the gentleman for yielding.

I wonder if the gentleman from New Jersey is intimating that his colleagues who voted for the bill were unaware of that provision in the bill as contained in the conference report?

Mr. WIDNALL. I would say "yes."

Mr. WELTNER. Was not the gentleman a member of the conference, on the conference committee?

Mr. WIDNALL. If the gentleman will look at the RECORD, I did not sign the conference report.

Mr. BROCK. Mr. Chairman, I hope my own personal position is somewhat more clear. I do intend to support this bill if we can make it what I consider to be an honest bill. I am not opposed to the principle of maximum free enterprise participation in the money market.

There are certain inconsistencies which have crept into the debate, and which I believe somewhat interesting. I listened to the gentleman from New York [Mr. MULTER], talk about the fact that if we have excess funds today, this would help to sop up those funds, while at the same time the chairman of our Banking Committee says that this will not increase interest costs.

I was interested in the remark that the Republicans were being supported by some rather unusual groups—the ADA, the Farmer's Union, the National Grange, and the AFL-CIO. It is not remarkable to me that we are being supported by any group, rather, I commend them for their intelligence.

I believe it is perhaps more remarkable that the chairman of the committee is supporting the American Bankers Association in this particular instance.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from Texas.

Mr. PATMAN. I believe the gentleman had better take off his list the Farmer's Union and the AFL-CIO. I do not believe they are in opposition to the bill.

As to the ADA, of course that is a rather unusual combination, I will admit.

We are not supporting the bankers so much as they are supporting us, and they are rather consistent in doing that.

Mr. BROCK. Well, we do have an unusual combination. I believe the gentleman will agree to that.

Mr. PATMAN. Yes; on both sides.

Mr. BROCK. Of course, the chairman does not often hide his light under a bushel, but, I was fascinated to hear him say that Members of Congress on this bill are relatively inconsistent and though inconsistent, then have been right on each position taken.

Mr. CEDERBERG. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from Michigan.

Mr. CEDERBERG. I am always interested in the remarks of my good friend the chairman of this committee, about how he is joining the bankers or the bankers are joining him. What surprises me is how he has left the small investors and the low interest rates, and joined the big investors in the big money market, with 5½ percent interest rates against 4¼ percent interest rates. I just cannot understand what has happened to the gentleman from Texas. I do not understand it. Perhaps he can explain it.

Mr. BROCK. I share the gentleman's concern.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I shall be delighted to hear an answer.

Mr. PATMAN. Of course I am delighted to help the small business man in the small towns. We are going to do that in the big cities. I would like to help them in the small towns.

Interest rates are not involved in this, regardless of whether they are low or high. The principle here is whether or not we should give the private sector an opportunity to buy these Government securities. Some rates will be high and some will be low, but that is not the principle involved here.

Mr. CEDERBERG. Mr. Chairman, will the gentleman yield further?

Mr. BROCK. I am glad to yield.

Mr. CEDERBERG. I have some small businessmen in my district, and maybe they are smaller than the small businessmen in the gentleman's district in Texas, but my small businessman, if he wants to buy any Government bonds, will have to get 4¼ percent interest, because I do not have any small businessmen that can go ahead and buy \$5,000 participation certificates and get it at 5½ percent. Maybe your small businessmen are wealthy down there. I guess the oil business is down there.

Mr. PATMAN. The small businessmen are not in business as investors. They do not make their money that way. The reason why we have large denominations here is to attract certain funds like pension funds and large corporate funds and funds like that. It is very necessary to do that in order to keep them out of competition with the housing market.

Mr. CEDERBERG. Will the gentleman yield further?

Mr. BROCK. I am glad to yield.

Mr. CEDERBERG. My small businessmen are having a little trouble getting by.

Mr. PATMAN. You mean they are having a little trouble getting bonds or getting by?

Mr. CEDERBERG. Getting by in business.

Mr. PATMAN. I thought you said bonds.

Mr. CEDERBERG. If I understand correctly, they will have to pay another 1 percent in the interest rates through the tax window. They are having trouble meeting their taxes and all these things, but they are going to have to make it up through the tax window.

Mr. PATMAN. This does not affect that at all. Besides the additional 1 percent or 1¼ percent that will have to be paid on these participation certificates will be made up two or three times by the taxes they pay which they would not have to pay on Treasury issues, to cities, counties, States, and political subdivisions.

Mr. BROCK. If I may remind the chairman, Treasury does not buy municipal bond issues. People buy those issues.

Mr. MULTER. If the gentleman will yield to me, I will point out some inconsistencies in the colloquy between the gentleman from Georgia and the gentleman from New Jersey. The gentleman from New Jersey did say that he did not sign the conference report, but the record shows that he voted for the conference report both in 1964 and 1965.

Mr. BROCK. If we can get back to the topic at hand just briefly, one of the real justifications for this bill and, as a matter of fact, about the only justification for it insofar as the Treasury itself and the administration are concerned is that they are totally unable to put out long-term Government obligations in the market today because we have a legal limit of 4¼ percent on long-term debt. It is an unrealistic limit. That cannot sell bonds at 4¼ percent and consequently they come to the Congress and ask us to provide them with a vehicle for making an end run around the 4¼-percent interest ceiling. It is interesting that the chairman of our committee, who consistently has been for low interest rates and even suggested we lower the long term debt rate, is carrying the ball for the Treasury in an end run around the ceiling on interest which is chargeable on the national debt.

Mr. PATMAN. If the gentleman will yield, the gentleman will also be carrying the ball against increasing the 4¼-percent rate and the gentleman in advocating taking off the ceiling is certainly advocating higher interest rates, I believe.

Mr. BROCK. I am saying to the chairman that we are taking off the ceiling with this bill as it is written without having to face our responsibilities as Members of Congress and facing the problem itself. We are conducting an end run around the law.

Mr. PATMAN. If the gentleman will yield further, this is not considered a precedent for that, I assure the gentleman. When it is proposed we take the ceiling off the 4¼-percent interest rate we will get the support of the Republican steering committee. We have 100 members on our steering committee from

the Democratic side only that will be in opposition to that, and we will do everything we can to defeat it, as we have defeated it twice already in the Eisenhower administration.

Mr. BROCK. In other words, it is fine politically to oppose an increase in the interest rates legally, but it is okay to carry a ball around end and pass a bill that allows the Federal Government to finance its debt at a five-and-a-half-percent interest rate when the actual limit, by law, is four and a quarter percent.

Is that what the gentleman is saying?

The CHAIRMAN. The time of the gentleman from Tennessee has expired.

Mr. WIDNALL. Mr. Chairman, I yield to the gentleman 5 additional minutes.

Mr. BROCK. Now, Mr. Chairman, let me get to the point. What are we doing to the money market? What are we doing to the small homeowners that so many people in this body consistently stand up for? We are taking these participating shares and selling them on the open market, \$4.2 billion worth. The gentleman from New York [Mr. MULTER] said that this is going to sop up excess funds in the market. Are there excess funds in the market? Are there really excess funds in the market, when today your homeowners cannot buy a house for less than 6½ percent to 6¾ percent interest rates?

Mr. Chairman, what is going to happen to the money market when we go in and sop up more funds and compete to a greater degree, to the extent of \$4.2 billion worth, with private financing for these funds?

Mr. Chairman, we are going to force interest costs even higher, to the extent that we will probably increase the cost on housing to the private small homeowner as much as one-half percent?

Mr. MULTER. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from New York.

Mr. MULTER. Will the gentleman from Tennessee concede that practically all of the money that goes into the CD, the certificates of deposit, is excess money? That is the kind of money which we are likely to get into these obligations, and money to be used with which to buy these items. We are not looking for the money that is going into the thrift institutions. We are looking toward taking out the excess money going into the CD's.

Mr. BROCK. I do not agree with the gentleman's definition of excess money. Very rarely do I find excess money lying around. I would like to see a lower interest rate. If we had excess money we would have lower interest rates and not higher interest rates.

Mr. MULTER. It is unused funds.

Mr. BROCK. Well, they are not unused funds.

Mr. MULTER. They are lying around when they put them into the CD's. Instead of doing that, one ought to just put them in here?

Mr. BROCK. Why are we trying to compete with CD money? In our committee we have a bill to kill CD's. I am

not for it as written, because I believe we can destroy the money market by operating in that fashion. However, that bill to eliminate them was introduced because with five and a half percent interest rates certificates of deposit by sopping up \$17-\$18 billion from the money market are killing savings and loans. Savings and loans must have sufficient funds to loan to the small buyer today. When you issue these participations in this bill at five and a half percent, or five and three-quarters percent, you are going to pull another \$4 billion out of the same market.

Mr. MULTER. Mr. Chairman, if the gentleman will yield further, surely the gentleman does not mean that the money which is going into the CD's would go into home loan mortgages?

Mr. BROCK. I do not say that.

Mr. MULTER. That is an entirely different market.

Mr. BROCK. They may not be the same market, but these are dollars which could be spent in that market.

Mr. MULTER. But they are dollars that could be used for that purpose.

Mr. BROCK. They could be in the bank and any number of other financial institutions. They would reinvest them.

Mr. MULTER. But you are trying to reverse the entire lending market because the money that goes into the home loans for mortgages comes out of the thrift institutions.

Mr. BROCK. I am trying to keep you from tearing the dickens out of the whole mortgage market with an increase in interest rates.

Mr. CLEVELAND. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from New Hampshire.

Mr. CLEVELAND. Mr. Chairman, I want to get down to some basic principles. As I understand the certificates of deposits, at least as they work in some New Hampshire banks, this money that goes into a bank via a certificate of deposit. I wonder if I could have the attention of the gentleman from New York [Mr. MULTER]?

As I understand it, this money that goes into a bank through the vehicle of a certificate of deposit, then goes into the disposable or rather loanable funds of that bank and that bank can then lend that money to construction men for home construction or for a variety of other business uses including mortgage money. That is the way it works in New Hampshire. Is that not the way it works countrywide?

Mr. MULTER. Mr. Chairman, will the gentleman yield so that I may answer?

Mr. BROCK. I am delighted to yield to the gentleman from New York.

Mr. MULTER. Obviously, the gentleman has his facts confused. Construction money for homes or anything else is short-term money. Mortgages on homes and other buildings such as office buildings constitute long-term money or loans.

Mr. CLEVELAND. Just a minute. The way it works in at least one New Hampshire bank that I can tell you

about, when an individual deposits money in that bank through a certificate of deposit that money then is part of the disposable funds of that bank and then the bank can go on and make a loan for a short-term or a long-term with that money. This is true in New Hampshire and I think it is true in the case of other banks throughout the country. I think the gentleman from New York [Mr. MULTER] is in error when he says something that discourages certificates of deposit is not going to cut down on the disposable money that banks have to finance construction, and particularly home financing and construction.

Mr. BROCK. Regardless of whether this bill does or does not affect certificates of deposit, it will result in pulling \$4 billion out of the money market. It will be competing for existing funds in the market. That competition obviously will drive interest rates up. There is no question about that.

Mr. CEDERBERG. If a man had \$5,000 at 5 percent interest in a building and loan association and he can buy \$5,000 worth of these participations at 5½ percent interest with the pay guaranteed by the Government; would he not be an idiot to leave the money in the building and loan association paying 5 percent interest? Would that not be taking money out that would otherwise be available for lending?

Mr. CLEVELAND. I would say he would be a poor businessman.

Mr. BROCK. Certainly I would consider him an imprudent one.

Mr. WIDNALL. Mr. Chairman, I yield 2 minutes to the gentleman from California [Mr. TALCOTT].

Mr. TALCOTT. Mr. Chairman, there are many things about this that should be discussed. I tried to discuss the question of parliamentary procedure during the discussion on the rule.

It is surprising to me that the Committee on Banking and Currency would permit this bill to be brought to the floor of the House with as little deliberation and as little debate as has been permitted—actually more in the Committee on Rules than in the Committee on Banking and Currency.

But this is only one point that we can consider when we are talking about this bill. Much has been said about trying to get more money in the private sector and trying to help the private sector. But actually I think we are confusing the situation. There is not going to be any more money provided for the private sector. The same people and the same businessmen and the same investors are going to be investing in these participations as would be investing in Treasury certificates or loans of the Small Business Administration. I think we are fooling ourselves if we think this is going to be providing new money or trying to help the private sector.

Mr. Chairman, another point of great confusion in this bill is the question of the guarantee of participations to be sold by FNMA. The agency is required to guarantee loans pooled with FNMA as trustee. On page 5 of the bill, lines 1

to 8, we find authority that the pooling agency or trustor, if required to make good on its guarantee, may use "any appropriated funds and other amounts available to him for the general purposes or programs to which the obligations subjected to trust are related." That is certainly throwing the credit of the United States back of the agency's guaranty although it is true, to make good on the guaranty, might take an appropriation by the Congress.

While this guaranty is good and effective, it apparently was not good enough for Wall Street bond counsel. So they came up with another form of Government guarantee which appears on page 5 of the bill beginning with the line type text on line 9 and carries over to page 6, line 8. This was replaced with a so-called committee amendment adding paragraphs 4 and 5 on pages 6 and 7 of the bill. I urge you to read both the stricken and the substitute language carefully. Although Wall-Street-bond-counsel language protects Wall Street underwriters completely, it does violence to the whole appropriation process of the Congress.

For whom are we legislating—Wall Street investment bankers, or the people? I think it is important that the Congress protect its own prerogatives.

The language to which I have just referred is the second guarantee or "pound of flesh" exacted by Wall Street bond counsel. If this language is allowed to remain in the bill, in effect, you will have an absolute Treasury backing of the agency's guarantee even though the language does not say that the obligations will be guaranteed by the Treasury and therefore by the United States.

But two guarantees are not even enough. There is still a third guarantee. This arises from the fact that, when FNMA sells participations for the account of an agency, FNMA itself will guarantee principal and interest on the participations sold even though they be sold for the benefit of another agency. Each certificate sold bears FNMA's guaranty endorsement. That "guaranty endorsement" will be made good by FNMA if called upon to do so, by FNMA borrowing whatever funds might be necessary from the U.S. Treasury. FNMA has unlimited backdoor borrowing authority from the U.S. Treasury to meet any or all principal or interest payments due on any participation certificates it sells.

A week ago, the gentleman from New Jersey [Mr. WIDNALL] put into the RECORD a copy of the prospectus with reference to the most recent sale by FNMA of \$410 million of participation certificates. This appears in the RECORD of May 9, 1966, beginning on page 9550. Notice the "Guarantee of payments due" section. Notice the letter from the Secretary of the Treasury in which he states that FNMA may properly borrow funds to make good its guarantee and that the Treasury Department will make loans to the Association "to enable the Association to meet its guarantee of the payment of principal and interest on the participation certificates." Note please that FNMA has agreed with the under-

writers that in the event it is called upon to make good its guarantee of the principal and interest on the certificates, it will apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make payments of principal and interest on participations sold.

How many "pounds of flesh" do the Wall Street bankers have to have? What does the second guarantee I just mentioned add to the guarantee by FNMA? Both rely on the withdrawal of funds from the U.S. Treasury without any further congressional action. The second guarantee embraced in paragraph 5, appearing in italic print on pages 6 and 7 of the bill, simply is not needed. Not only is it not needed, it is most undesirable because it does such violence to the appropriation procedures of the Congress. I have no doubt that bond counsel would stoutly insist that the second guarantee, from their point of view, is desirable. But the facts prove otherwise and we are dealing with fact and not theory. FNMA has already sold \$1.6 billion of participation certificates for its own account and the Veterans' Administration, based solely on Treasury borrowing authority to support FNMA's own guarantee. Wall Street bond counsel could argue until it was blue in the face that the second guarantee was needed but on the record and on the facts, this just is not so. Two all-inclusive Treasury guarantees add nothing to one all-inclusive Treasury guarantee. The controversial Treasury guarantee set up in subparagraph 5, appearing on pages 6 and 7 of the bill, should be stricken from the bill. This is the most practical way of eliminating this confusion in this bill.

The fact is that the guarantees make these participations salable—not the loans which are pooled.

Mr. PATMAN. Mr. Chairman, in view of the fact that we have more time available, I would like to yield to two or three Members in succession. First, I yield to the gentleman from Connecticut [Mr. GRABOWSKI].

(Mr. GRABOWSKI asked and was given permission to revise and extend his remarks.)

Mr. GRABOWSKI. Mr. Chairman, I rise in support of this legislation and urge its enactment.

The marketability of pooled Federal assets underlies the success of the participation sales technique.

The marketability is enhanced to considerable extent by the participation instrument itself—the share in the pool which the private investor buys. Compared with Federal loans sold directly to an investor, the participation share is a much more flexible instrument. This makes it more ready saleable at lower interest rates.

The participation technique, in effect, converts obligations which have a relatively narrow market acceptability to obligations which have broad marketability. These obligations are attractive to a wide variety of purchasers: banks, insurance companies, pensions funds and other institutional investors.

The Federal National Mortgage Association—Fannie Mae—has already gained broad market acceptance for the participations it has been selling under authority granted in the 1964 and 1965 Housing Acts. Thus, there is already a strong foundation to build on.

In contrast, when loans are sold directly, the market is sometimes limited to investors who have some direct knowledge of, or some related interest in, the particular program under which the loans were made. Because of market unfamiliarity the spectrum of investors is relatively narrow and, hence, the interest rate is likely to be relatively high.

The strongest foundation under the participation shares, of course, is the guarantee. This is how the guarantee would work:

Under the legislation as it now stands, each agency pooling its loan would be required to guarantee its pooled obligations to Fannie Mae. This requirement protects Fannie Mae and places the primary responsibility for the loans where it belongs—with the lending agency—where it is now.

The record of borrowers in their repayment of Federal loans is a very good one. Consequently, the risk borne by the lending agency is not necessarily a great one.

Further, the bill would permit the lending agency to draw out of the pool any loan in default or likely to default. Thus, the lending agency would substitute good paper for bad paper if any developed. The lending agency would fulfill its guarantee, when necessary, by using any appropriated or other funds available for the general purposes of programs under which the loans are originally made.

Because of the right of substitution and the lending agency guarantee, it is not anticipated that either Fannie Mae's guarantee of the participations or Fannie Mae's drawing rights on the Treasury would be used. Further, Fannie Mae could not draw on the Treasury in any way to increase its programs or those of participating agencies.

The purpose of the Fannie Mae guarantee and drawing authority would be to provide additional safeguards which would help to assure the most favorable market reception for the participation certificates and hold down the interest rates at which they could be sold.

It has been my intention to make a factual and informative—rather than an argumentative—statement. The facts are usually the best argument.

The facts answer any question about the marketability of participations. The facts provide the answer to veiled allegations about loss of control or of the effectiveness of Federal credit programs.

Perhaps the most important job the facts do in this case is to answer insinuations about misuse of Fannie Mae or its guarantee or its drawing rights on the Treasury. This legislation provides more than ample protection to the investors, the borrowers under Federal credit programs, to Fannie Mae and to the lending agencies, and to the taxpayers. That's why it has my support.

Mr. PATMAN. Mr. Chairman, I yield 3 minutes to the gentleman from New Jersey [Mr. McGRATH].

(Mr. McGRATH asked and was given permission to revise and extend his remarks.)

Mr. McGRATH. Mr. Chairman, the hopes of nearly 5 million small businessmen throughout America are riding on the passage of H.R. 14544.

For many small businessmen, the outcome of this legislation may well determine their future. It is no secret that the small businessman would be virtually without sources of finance if it were not for the Small Business Administration. We have seen great evidence of this since October 1965, when the Small Business Administration was forced to curtail its lending programs because of lack of funds. The small businessman when he is in need of capital cannot go to the bank and arrange adequate financing, nor can he go to the public for a stock offering. While commercial banks have helped small business to some extent in this country, many banks are extremely leery of making loans to small enterprises, and other banks refuse to even accept loan applications from small businessmen. In this type of environment, in order for small businesses to survive, the Small Business Administration must have adequate loan funds on hand at all times.

Congress could handle this problem by granting the agency a blank check authorization. This would mean that the agency could make as many loans as it wished and would stockpile these loans for 20 and, perhaps, 30 years until repayment. This is basically the method in which the agency is operating at the present time. There have been some direct sales of SBA loans to institutional investors, but these programs have been far too small and far too ineffective. In many cases where SBA was able to sell a loan, the sale was contingent upon SBA maintaining servicing of the loan.

There is a far more reasonable and effective method for financing the Small Business Administration. I, of course, refer to the legislation before this body today, the Sales Participation Act of 1966. No longer would SBA have to stockpile billions of dollars worth of loans for periods up to 30 years. Under H.R. 14544, the agency would be able to pool these loans whenever a substantial amount had accumulated, and through a trustee, such as Federal National Mortgage Association, sell shares in the pool.

If the Participation Sales Act becomes law, it is estimated that during fiscal 1966, SBA will sell some \$350 million worth of loans. This figure is the amount estimated for the agency's lending programs during fiscal 1967. It is further estimated that during fiscal 1967, the agency will sell nearly \$200 million worth of loans, an amount estimated to handle loan transactions in the fiscal year. There will still be a few million dollars worth of loans left on the agency's books. However, these are loans of short maturities in which the agency would receive more financial benefit if it waited for the full payoff, rather than selling

these loans. In addition, if the short-term maturity loans were placed in a long-term pool, they would have to be substituted in the pool when they reached their maturity.

Mr. Chairman, it is not often that we have a chance to look into the future to see the effects of a piece of pending legislation. However, in this case we do have that privilege. The Federal National Mortgage Association has been selling participation pools since 1964, and I am certain every Member of this body recognizes the tremendous boost that this has given the housing and home buying industry. Passage of H.R. 14544 will provide the same benefits to small business.

In this regard, Mr. Chairman, I strongly urge this body to adopt H.R. 14544 to put small business in America back on its feet.

Mr. PATMAN. Mr. Chairman, I yield 5 minutes to the gentleman from Iowa [Mr. HANSEN].

Mr. HANSEN of Iowa. Mr. Chairman, I thank my chairman for yielding this time to me.

Mr. Chairman, as a Member of Congress from the great State of Iowa, one of the most agricultural of all the States in this Nation, I urge all who have the most basic of our industries, that of agriculture, at heart, to support the Participation Sales Act of 1966.

This measure will in no way jeopardize any of the Government lending programs that exist today, that involve the farm families. This act will provide for an expansion of a tried and true method of financing through the use of an increased portion of private funds in the necessary and needed function of direct loan financing programs by the Federal Government.

FNMA has a long history of success in this field of operations. It is interesting to note that it has poured an unprecedented amount of money into the housing mortgage market during the first quarter of this year through its buying of Government-backed mortgages from private lending institutions. The amount of this activity is approximately \$800 million, almost double the rate of the previous high quarter.

Mr. Chairman, the record clearly shows that FNMA has met with great success in having provided for a flow of funds between lenders and borrowers, sellers and purchasers.

The provisions included under this bill would enlist private financial resources in the participation pool to be established. It would continue a function which has already been started, and has proven its worth.

The passage of this bill, I might add, would do for the direct loan market and the direct loan program, that which has occurred in the insured loan field.

Mr. Chairman, I support this bill. I urge all Members to support this legislation.

(Mr. LANGEN (at the request of Mr. WIDNALL) was granted permission to extend his remarks at this point in the RECORD.)

Mr. LANGEN. Mr. Chairman, I recall the years of my youth on a Minnesota

farm, when a familiar sight was a team of horses pulling the farm equipment. A horse is an animal that is easily startled. He shies away from sudden noises and is distracted by movements about him. To keep him calm, we used to put blinders on him so that he could only see what was straight ahead. There was still plenty of activity going on around the horses, but they were only aware of what they saw up front.

It occurs to me that the bill before us today constitutes a set of blinders for the American public. John Q. Citizen has become a bit skittish lately after too many years of deficit spending and rising national debt. He started to shy away from the sudden movements about him that indicate another round of wild and uncontrolled spending of his hardearned money. This administration does not plan to curtail any of its spending schemes, but it would like the public to quit asking so many questions. Therefore, this plan before us today, to permit the sale of participations in Government agency loan pools, was put forth as the "blinder" to fool the public on budget expenditures. It is a gimmick to permit a continuance of wild spending, but the public will not see all of it reflected in the budget. Actually, this bill would render the budget useless.

Even the title of this bill is a misnomer, because nothing is actually sold. What really happens is that pooled assets are merely refinanced in a more costly way because the Federal National Mortgage Association cannot borrow as cheaply as the U.S. Treasury.

I wish to commend the 10 gentlemen who dissented when this bill came before the committee for their pertinent and wise views as stated in the minority report. I hope every Member of the House has read these views. I will not repeat the contents of those minority views except to note the conclusion that—

This bill offers a cheap budgetary way to circumvent the statutory debt and interest limits, while lulling the people into thinking that the millennium has arrived. But while budget-conscious Americans may be fooled, they will pay dearly.

This hastily conceived legislation opens Pandora's box of evils that will make budgeting a mockery and devious spending a way of life. If a private corporation tried such a scheme, its officers would soon be thrown into jail.

Once initiated there would be no end to this form of budget maneuvering. The \$4.2 billion involved this year would be only the beginning, since Uncle Sam owns \$33.1 billion of financial assets. By pooling these for participation sales and by the miracles of bookkeeping, we might even reduce the national debt and eliminate annual deficits. At least that is how it would look to the public. The truth, of course, is that the Nation would still be just as far in debt and the taxpayers would actually pay more for the use of the borrowed money.

It is hoped that this Congress will take another long look at the proposal before us and not hurl the Nation in an uncharted direction. The consequences of this legislation are far too important and

far reaching to rush it through the Congress. Let us take our own blinders off and witness the dangers around us.

Mr. WIDNALL. Mr. Chairman, I yield 5 minutes to the gentleman from Ohio [Mr. Bow].

(Mr. BOW asked and was given permission to revise and extend his remarks.)

Mr. BOW. Mr. Chairman, my friend from California the other day said we would probably have some charges of gimmickry in this bill. I do not want to disappoint him. I am going to make some charges of gimmickry in the bill. From the standpoint of fiscal responsibility in budget and debt management policy, I think it is unfortunate that we have H.R. 14544 before us today. It does violence to my longstanding advocacy of eliminating all gimmickry from the budget process and it authorizes additional nonessential debt service burdens which we can ill afford under the war and inflationary situations now existing.

H.R. 14544 anticipates sales in fiscal 1967 of \$4.2 billion of participation certificates covering pooled financial assets of the U.S. Government. The proceeds from these participation certificate sales will be netted into the administrative budget as reductions in spending rather than increases in receipts.

Of course, there is nothing new in that procedure since it is one the Government has followed for a good many years with respect to revolving funds. The fact that this practice has been followed over the years does not make it a correct or desirable one. In my opinion, the use of receipts to offset expenditures distorts the record of budget spending and lulls the uninitiated into a feeling of false security that the budget deficit is modest and Federal spending is still within the realm of reason.

If Congress should refuse to authorize these participation sales, the budget deficit for 1967 would be \$6 billion instead of the \$1.8 billion, which has received such acclaim from my friends on the other side of the aisle.

An additional bit of undesirable gimmickry that will result from enactment of this bill is the fact that the public debt, which now stands at the astronomical level of \$320 billion, will not be increased by the additional Federal spending that will be financed by the participation sales. Under existing law, the obligations of the Federal National Mortgage Association are carried outside the public debt limit and the debt that will be incurred by FNMA through these participation sales will also be outside the public debt limit.

It has been agreed by everyone concerned with H.R. 14544 that the bill will force the Government's interest costs to rise. This is occasioned by the fact that the loan assets to be pledged in the participation certificates bear low interest rates that must be materially increased in the participation certificates if the certificates are to have any market value. That increased interest cost will constitute a budget expenditure.

The Government, through FNMA, must also guarantee the interest payment and the return of principal to in-

vestors in these certificates. To the extent that the original loans go sour, and some of them will, then we shall incur further budget expense for the defaulted principal and interest due on those loans.

Now, I ask you, Is it not pure undultrated gimmickry when the Federal Government—

First, sells a participation certificate with a guaranteed interest and principal return;

Second, retains title to the pledged loan asset which must be serviced until maturity just as the participation certificate must be serviced;

Third, uses the proceeds from the participation certificate sales for additional lending but treats their receipt as a reduction of budget expenditures; and

Fourth, in effect, still has a full faith and credit obligation to pay the principal amount of the participation certificate and the interest thereon, but does not have to treat that obligation as a part of the regular public debt?

If the Government wants to unload these loan assets, would it not be the better part of wisdom to discount them down to their market value, sell them outright, and take the financial beating that would result from having invested in questionable loan assets in the first place?

If it does not want to unload them and is convinced that eventually most of the loans will be repaid with interest, then why do our Federal money managers not go into the marketplace and borrow through the usual procedures, the funds that are absolutely essential for operation of the Government?

This bill will in no wise help to get the Federal Government out of the lending business. To the contrary, it will help expand our lending activities and will take us more deeply into the morass of budget and debt deception.

Mr. Chairman, since it is apparent that the administration considers enactment of this bill one of its program musts, I shall, at the appropriate time, offer two amendments which I feel will materially improve the bill and which will help to protect the Appropriations Committee's subsequent interest and responsibility with respect to its provisions.

The first amendment will continue as does the bill, to provide for indefinite appropriations to finance the insufficiencies that will occur from time to time; but it will eliminate the triggering device which automatically establishes appropriations on the books of the Treasury with which to pay insufficiencies when they arise. The elimination of the automatic trigger will get all of the facts with respect to insufficiencies out on the table for initial review by the Appropriations Committees and the Congress.

The second amendment will provide for the submission of business-type budgets in connection with the academic facilities revolving fund which is authorized in the bill.

Both of these amendments constitute desirable improvements in the bill and since they do no violence to the bill's general provisions, I do hope that they will be adopted.

The CHAIRMAN. The time of the gentleman has expired.

Mr. WIDNALL. Mr. Chairman, I yield the gentleman 2 additional minutes.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. BOW. I am delighted to yield now to the gentleman from Texas.

Mr. PATMAN. Thank you. I have great respect for the gentleman, but I am at a loss to understand why the gentleman made the statement he did with respect to limitations and restrictions when he voted, as the record discloses, in 1964 for an identical proposal without any restrictions or limitations. That is on the conference report on housing.

Mr. BOW. I will explain to the gentleman.

Mr. PATMAN. Just a moment.

Mr. BOW. I refuse to yield any further. I find myself somewhat in the same position the gentleman is in today. Perhaps in 1964 I had been a little misled, as apparently the gentleman was. Over the years that I have been a Member of this Congress, which is about 16 or 18 years, I have always found the gentleman opposed to high interest rates—sort of after the bankers and bondholders. Now I find him today with a bill very much in their favor. So you may be surprised, Mr. Chairman, at my vote in 1964 compared to my feelings today, but I may say also that I am surprised to find the chairman in the position he is in.

Mr. PATMAN. Of course, the gentleman is wrong in saying that I am for high interest rates. High interest rates are not involved here. But even if I am wrong, what justification is that for the gentleman to be wrong?

Mr. BOW. We are always in the position where we have a right to be wrong occasionally, Mr. Chairman.

Mr. PATMAN. That is right.

Mr. BOW. I am not sure what the vote is and what the bill is that the gentleman is talking about. I am sure he is reading the record correctly. I would not question it, but I am sure we all find ourselves at times in this position. May I say perhaps over the years, being here and listening to the discussions of others, I have perhaps found the folly of my ways.

The CHAIRMAN. The time of the gentleman from Ohio has expired.

Mr. WIDNALL. Mr. Chairman, I yield the gentleman 1 additional minute.

Mr. BOW. I shall accept the additional time, and shall not walk away.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield to me?

Mr. BOW. I yield to the gentleman from New Jersey.

Mr. WIDNALL. I would like to clarify the record a little bit with respect to the Small Business Administration.

The gentleman from New Jersey merely spoke about the fact that this is going to provide help for the small businessman and save the small businessman who has been in such dire straits, because the Small Business Administration had run out of funds. The Small Business Administration ran out of funds because they refused to request from the Congress additional funds with which to meet the needs of the program.

It had \$30 million in authorizations, and still has that amount which can be utilized and which could have been uti-

lized in order to take care of their needs. But, this was an administration decision. This bill is not needed in order to save the Small Business Administration.

Mr. BOW. I would say to the gentleman from New Jersey that I happen to be on the subcommittee that appropriates funds for the Small Business Administration. No request was made. The fact of the matter is that they delayed the naming of a Director for months and months and months, and if there is any responsibility for the fact that there are no funds for small business, that responsibility is down at 1600 Pennsylvania Avenue.

Mr. PATMAN. Mr. Chairman, I yield 5 minutes to the gentleman from California [Mr. REES].

(Mr. REES asked and was given permission to revise and extend his remarks.)

Mr. REES. Mr. Chairman, I rise in support of this legislation.

Mr. Chairman, I feel that if we did not have the problem with the national debt ceiling 7 years ago, the Democrats might have been for a bill at that time. Likewise, if we did not have a problem with the national debt ceiling this year, probably the Republicans would be in favor of the program. I believe this is the problem. And, unfortunately, we have each been looking at this in our own partisan way—how were we then going to embarrass the other party, by making them raise the debt. When we look at it this year, the Republicans say, now are we going to embarrass the other party, by making them raise the national debt?

Mr. Chairman, if we look at the overall program and not worry about its effect upon the national debt, because it does not amount to that much one way or the other, I believe one can see some of the support which the Eisenhower administration gave it one year and the support which the present administration gives it this year, which is, what is an essentially good concept in the national handling of the debt.

Mr. Chairman, we are talking about money that the Government of the United States owes, owes all of us who own a piece of this debt.

Mr. Chairman, we have two kinds of debt. One is a debt that is in terms of deficits that we might develop each year, because we do not have enough tax revenue to cover our expenditures. The other type of debt is when you lend Government credit to Federal agencies for specific lending programs. We have a lot of them such as the Export-Import Bank, the Veterans' Administration, FNMA, the Small Business Investment Corporation, the Farmers Home Administration, the Office of Education for College Housing. All of these are programs, more or less, where the Government will tell someone, "All right, we will guarantee you so that you can buy a house at this lower percentage of interest, and then we will take this debt and fund it."

Mr. Chairman, what we are trying to do here is to take the overall debt of the Government of the United States and separate it into other specific types of debt. The debt covered by participation

certificate represents the part of the debt which is owed by the debtor and not the overall taxpayer; but the individual debtor such as the small businessman who borrows money or the farmer or the exporter. We are, more or less, separating it from general obligation Government debt. You might compare here the difference between a general obligation bond and the revenue bond. The revenue concept type of debt does not belong in the national debt, because pledged behind that is the obligation of the homeowner and the farmer and the exporter to pay this debt. If they do not pay it, there is a Government guarantee. If they default, the Government will come up with the money.

You know, Mr. Chairman, we are going to have a lot more of this type of debt, because if you look at the new programs, especially in the new Department of Housing and Urban Development, you can see that there is this concept where we loan money at low interest rates, to local governments, money to colleges for dormitories, and money for facilities. This is the type of financing that Congress seems to like, because this means that local governments and agencies can run their own program, and I feel that is best.

What we are trying to do is to try to differentiate one type of debt from another. I think it is about time we did because the revenue concept of debt does not belong to or tie in with the general obligation type of government debt.

There are two questions that I think are very important. We talk about this problem of competition. Now if we are going to sell \$4.2 billion worth of this new participation pool, what is this going to mean? Is this going out to compete against the savings and loans or banks? Is this new debt? No, it is not. The \$4.2 billion has been already voted by the Congress in program authorizations. We are going to have to finance this anyway whether with regular Treasury notes or with these participation certificates.

I asked the Assistant Secretary of the Treasury, Mr. Barr, if these participation certificates were put into the money market; would this not drain funds from other types of financing such as mortgages, consumer credit, or business expansions, or other types of money that was needed for the general economy? His answer was "No."

If you look at the institutions that will buy this instrument, you will find they will tend to be pension funds or insurance companies, and other types of institutions. This is the type of instrument they like to buy.

Another question is, will this necessarily raise interest rates? No, the certificates will not necessarily raise interest rates.

In February of this year, SBIC issued some debentures called section 302 debentures. These were sold as a separate issue on the market guaranteed by Uncle Sam. We find that these went to a net of 6 percent. I asked Mr. Barr:

If you had the right to put this in a pool with a lot of other types of debt; what do you think the interest rate would have been?

He said:

The interest rate would probably be about one-half point less.

In this one case, say on a \$100 million sale of debentures, if there were a pooling and they were sold in a sophisticated manner by the Treasury, who must look at the overall economy, I think we would find there would have been a saving of something like \$500,000 in the interest cost on this type of transaction.

You are going to find some cases where the interest will go up. In other cases, the interest will go down. I think in terms of debt management of the Federal Government of the United States, you are going to find that with this type of pooling, the Treasury will have more control in the handling of long-term and short-term money and will be able to aid the financing of the Government of the United States far better than they have been.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. REES. I yield to the gentleman.

Mr. WIDNALL. In view of the fact that you seem to indicate that there just seems to be Republican opposition to this bill, I would like to ask you this question. Is the National Farmers Union, the Grange, the American Farm Bureau, the Americans for Democratic Action and other groups—are they all part of the Republican apparatus? They have indicated strong opposition to this bill.

Mr. REES. Well, I am rather surprised that the Americans for Democratic Action seem to be moving more and more over to your side.

The CHAIRMAN. The time of the gentleman from California has expired.

Mr. PATMAN. Mr. Chairman, I yield 3 minutes to the gentleman from Tennessee [Mr. EVINS].

Mr. EVINS of Tennessee. Mr. Chairman, this legislation will forward the desirable objective of substituting private for public credit.

For many years the Federal Government has carried on many lending programs to finance essential activities.

These loan programs have been financed by direct appropriations.

We are all familiar with the various Federal credit programs to help the farmer, the businessman, the homebuyer, the veteran, students in college, and others through Federal loan programs. These loan programs currently exceed \$33 billions.

What we are attempting to do here is to sell some of these Federal loans and sell "participations" in pools of loans to private investors. The substitution of private for public credit is a recognized, sound method of financing. This proposition is not new or novel. It has been carried on by a number of agencies for a number of years. By this act we will be extending the principle to include additional types of loans. The substitution of private for public credit has advantages.

It makes effective use of the taxpayers dollar;

It offers private investors and opportunity for sound investment and a fair return;

It benefits business and those of our citizens helped by these programs;

It insures the Government the best possible return on the sale of financial assets;

It provides private investors with widely accepted and highly desirable assets;

It reaches sources of capital which are not otherwise available and the sales will be handled by a centralized agency—expert in handling these sales—the Federal National Mortgage Association;

And, finally, there will be a diminishing demand for direct appropriations while the Appropriations Committee controls the amounts of participations which will be sold.

The Congress, through the Appropriations Committee, will have an annual review of this matter.

This act provides that, in all cases, the Appropriations Committee must authorize in advance the amounts of participations which can be sold against the Government's assets.

So, Mr. Chairman, this is needed legislation—it is desirable legislation—I support the Sales Participation Act and urge its passage.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. EVINS of Tennessee. I yield.

Mr. WIDNALL. You mentioned the figure of \$725 million that the President used in a recent White House signing ceremony. Is it not true that only about \$175 million or \$185 million of that has been authorized through the Banking Currency Committee, and when he uses that figure, does it not mean that from now on the Banking and Currency Committee will be bypassed with respect to any future authorization?

Mr. EVINS of Tennessee. My remarks were addressed to the loan program of the Small Business Administration. It is possible that there may be additional authorizing for various other agencies of the government. But the SBA has \$1.5 billion in loans outstanding at this time, and when these loans are sold, then the fund, as the gentleman knows, goes into the revolving fund, and the loan program can be resumed. There is a great demand for this loan program to be resumed. I am not sure about all the authorizations, but I was directing my remarks to the Small Business Administration in particular.

Mr. PATMAN. Mr. Chairman, I yield to the gentleman from Ohio [Mr. SWEENEY].

(Mr. SWEENEY asked and was given permission to revise and extend his remarks at this point of the RECORD.)

Mr. SWEENEY. Mr. Chairman, I rise in opposition to the Sales Participation Act legislation under consideration by the House today.

This proposal has stirred much controversy and is a new departure in Federal financial planning.

The proposal of the administration to sell shares in Government loans, in my opinion, extends tremendous advantage to the larger private investors of the Nation and certainly discriminates quite effectively against the best interests of the little fellow who buys savings bonds

at a much lower interest rate from the Government.

I concur wholeheartedly with the observation of the New York Post of April 25, 1965, which points out that if the Congress OK's the plan, private lenders could pocket over \$100 million of extra earnings of the next 2 years—courtesy of the taxpayers.

Mr. Chairman, the real bonanza and benefit of this proposal accrues to the large financial investors such as banks, insurance companies and pension funds who will be earning premium interest from one-fourth to one-half of 1 percent above regular Government funds.

At current interest rates that means that these well-heeled financial interests would be getting a rate of 5½ percent on their investment with all of the work and worry taken care of by soft-hearted Uncle Sam.

I am convinced beyond a doubt that the primary purpose of this legislation is to cut down on the executive budget deficit. While that might be a very meritorious objective for those of us who sit on this side of the aisle, I do not feel that it is sufficiently valid reason for overlooking the fact that these actual loans that will be sold to private interests will still belong to the Federal agencies which will do all the work of collecting, paying and foreclosing on defaulters, and so forth.

I am very impressed by the figure of estimate which indicates that if the additional interest were to rise to three-fourths of 1 percent, the cost of benefit to these well-heeled financial interests could extend to the level of \$132 million in the first 2 years of the program alone.

In addition, Mr. Chairman, the Sales Participation Act proposal has not taken into account the serious effect the impact this bill would have upon the national mortgage market.

I do concur wholeheartedly with the observation made here today that FHA and VA insured mortgages would decline by reason of the fact that applicants can get a preferred rate of interest from the Federal National Mortgage Association.

This legislation confers no benefit upon those in greatest need for mortgage financing but seems to me would be a proposal and "gimmick" worked out by the Director of the Budget to mask over and cloud the real picture concerning our Nation's financial affairs.

I urge the defeat of the bill.

Mr. PATMAN. Mr. Chairman, I yield to the gentleman from New York [Mr. TENZER].

(Mr. TENZER asked and was given permission to revise and extend his remarks at this point in the RECORD.)

Mr. TENZER. Mr. Chairman, I rise in support of H.R. 14544, the Sales Participation Act of 1966. Without relinquishing congressional control of Federal spending, this legislation would authorize participation of private capital in Government loan programs.

The concept of encouraging private capital to participate in the loan programs of Government agencies is not a new one. The experience gained in 1965 from the sale of \$925 million in direct

loans and accounts by the Veterans' Administration has been successful. The net result has been beneficial and of great importance to thousands of veterans who were able to receive Government loans without the need for additional congressional appropriations. The participation sales approach has also proved successful in connection with recent programs involving the FHA and Export-Import loans.

I am particularly interested in this legislation because of the effect of the present moratorium on direct small business loans by the Small Business Administration. The moratorium was imposed last year following the extensive damage to small businesses by Hurricane Betsy, resulting in a depletion of the SBA's disaster loan fund. This legislation would create a pool of Government loans, provide private capital to improve the asset sales program, and reduce the number of outstanding loans which the Government now carries.

I support this measure and believe it would result in the lifting of the moratorium on SBA loans, assisting thousands of small businesses in the United States which seek to expand and avail themselves of the services and programs of the Small Business Administration.

First. Some who oppose this bill claim that the sale of participation certificates would adversely affect the mortgage market.

Fact: The potential market for participation certificates extends across the whole capital market, including investors who ordinarily are not mortgage investors. If mortgages were sold directly, as urged by the minority during the House hearings, the market would be limited to regular mortgage lenders, and such sales would, therefore, be directly competitive with new mortgages.

If participation certificates are not sold, the Treasury will have to issue additional obligations in the same amount. Consequently, the sale of participation certificates will not have the effect of increasing total Federal demands on the capital market.

Moreover, Federal borrowing would have to be concentrated in the shorter maturities, and this could compete with construction financing.

The existing authority of VA to sell participations, seems to refute this argument.

Second. Others who oppose this bill claim this program will be a "windfall for the fat cats," and refer to "an unusually high return."

Fact: No one has denied that the participation certificates will cost one-fourth to three-eighths percent more than direct Treasury obligations of comparable maturities. But the Treasury can now borrow only in the short end of the market where rates are high, while the participation certificates can be sold in the longer-term area where rates are lower. It may cost something more overall to sell participation certificates, but the difference will be small.

It is hard to determine the standard of measurement, when the rates are competitively determined by the market. Moreover, the participation certificates

will have fixed maturities, and the purchaser will not be insulated against fluctuations in market price. The saver who purchases E bonds or deposits his funds in a savings or share account can get his money back on demand without any worry about changes in market prices.

Third. Others say the cost will be \$44 million to \$132 million over the next 2 years.

Fact: The budget estimates for FNMA participation sales are \$1,660 million in fiscal 1966 and \$3,230 million in fiscal 1967, a total of \$4,890 million. Assuming an interest differential of one-fourth of 1 percent, the additional cost would be only \$4 million in fiscal 1966 and \$12 million in fiscal 1967. This is a total of \$16 million for the 2 years; \$16 million—or \$24 million if the cost difference is three-eighths of 1 percent—is a small price to pay for encouraging private participation in these programs and releasing the nearly \$5 billion of Federal funds raised from taxation or Treasury borrowing, which is now sterilized in the agency portfolios.

Other opponents of the measure have argued that the sale of participation certificates would adversely affect the mortgage market. This is not the case for even if certificates were not sold, the Treasury would have to issue additional obligations in the same amount. Consequently, the sale of participation certificates will not have the effect of increasing total Federal demands on the capital market.

Pension funds which presently do not buy mortgages, do invest in corporate bonds and common stocks, would now be able to buy these participation certificates. They would thus join our banks and insurance companies traditional investors in Government securities and bring vast sums to the money market.

I support this legislation and remind my colleagues that the concept of asset sales was developed as a bipartisan program under President Eisenhower's administration. H.R. 14544 will strengthen this program and retain the congressional control over agency appropriations and the pool of assets to be sold. I urge my colleagues to add their support to this measure.

Mr. PATMAN. Mr. Chairman, I ask if the other side will use some of their time because we have only one more speaker.

The CHAIRMAN. The gentleman from New Jersey is recognized.

Mr. WIDNALL. Mr. Chairman, I yield at this time to the gentleman from Missouri [Mr. CURTIS].

Mr. CURTIS. Mr. Chairman, this bill comes on the floor under a good label, a label indeed which the Republicans have supported and advocated for years; namely, substituting private investment for public, but that is just about as far as it goes.

The issue is over what else has been put into this bottle under the label.

The gentleman from Tennessee [Mr. Brock], certainly put his finger right on it. This is an attempt to make an end run around the $4\frac{1}{4}$ -percent interest ceiling on the Federal debt. The Ways and Means Committee, my committee, will start hearings next week on the Federal

debt. The gentleman from Texas has said that he has 100 people on his side lined up to vote against increasing or removing the $4\frac{1}{4}$ -percent ceiling on long-term obligations, that is, Government Bonds, beyond 5 years. Because that ceiling is on, the Government has not been able to market long-term bonds.

The gentleman from Georgia, by the way, is certainly uninformed on the subject of debt management and sales because we have been successful—this administration and the previous administrations—in marketing long-term bonds within the interest ceiling.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. The gentleman, as I recall, said that we had not sold any for 10 years. I had a check made to find out when we last did. Just to set the record straight, on May 15 of last year we sold \$2 billion of 9-year bonds at a rate of $4\frac{1}{4}$ percent. In January of last year we sold \$4.3 billion 5-year-and-1-month bonds, at a rate of between 4.16 percent and 4.18 percent.

Also, even in our short-term notes—the last short-term issue of longer than 3 years, which was on February 15—when we sold \$7,680 million of 4-year-and-9-month notes, the rate at that time was 5 percent. But, just to keep the record straight, there have been certainly some sales. We have not been deadlocked for the last 10 years.

Mr. CURTIS. I asked the gentleman from Georgia to yield at that point when he was discussing this. He refused. This has been too often the tenor of debates on the floor of the House. In order not to have the remarks of those who might rebut what the person is saying, the person speaking refuses to yield.

Right now the Government bonds beyond 5 years are actually selling at a yield of about 4.7 or 4.8. In other words, they are being discounted. But the Federal Government itself cannot market long-term bonds because of this interest ceiling.

What I was about to say is that those who have been calling this bill a sham, I believe have been doing so with reason, the reason being that the attempt here is to seem not to be increasing interest rates in marketing Government securities when, as a matter of fact, that is exactly what is being done.

There may be 100 votes, or the whole Democratic Party may vote against increasing the interest ceiling on long-term Government bonds, but if they vote for this bill they are just as surely increasing the amount of interest that the Federal Government must pay, and it will be beyond the $4\frac{1}{4}$ -percent ceiling. This is the shame part of this operation.

There is a second sham part of this operation, which has to do with another ceiling, which the Ways and Means Committee will be confronted with in our hearings next week, the ceiling imposed upon the amount of the Federal debt.

The gentleman from California made a very fine statement in analyzing the two different aspects of Federal debt. I think he was in error in putting this

dispute on the basis of partisanship, because there are many Democrats, I am happy to say, who share our views on this—not just the ADA Democrats, but some of the conservatives who have not lost sight of the essential picture here.

The gentleman was right in pointing out that there are two aspects of the Federal debt. One is subject to the debt ceiling, and involves the full faith and credit of the United States, per se. The other part, which he pointed out, has to do with the kinds of securities, or the lending of money which is secured in another way. It is that kind of debt which becomes very important in our considerations here.

And this kind of debt is divided into two parts. One kind of debt is that which is marketable, because it has interest rates that are in conformity with the market demands, and those securities are being sold now. I am happy they are.

This is the kind which the debaters on the Democratic side said we have not heard much about. The Government has been selling some of these securities. Indeed they have and I certainly have pointed it out continually and urged that the administration continue to sell them.

Those they can sell because the lending has been done with a conformity to the cost demand in the marketplace for interest. They can do that.

The subsidy aspect of this bill relates to those Government securities pegged at 2 percent or 3 percent, on unrealistic interest rate as far as the marketing end is concerned. For good or ill, wisely or unwisely, we have decided to subsidize in these lending areas, and it is these kinds of securities, that are being put into this pool, which cannot be sold in the market unless we appropriate more money to pay the going interest rates.

Here is one of the differences between the Republican advice and the advice that is incorporated in this bill. Furthermore, if these moneys realized from the sale of these capital assets were used to reduce the Federal debt under the ceiling, this would be fine.

Actually, when the proposal is merely to shift financing from one form of debt which is subject to a debt ceiling to another form which is not subject to a debt ceiling, and when it has with it the implications of further appropriations to be financed by more debt that would be subject to the debt ceiling—we have this kind of poor advice which is being given in this bill.

I would remind the Members the essentiality of what is the Republican advice. This should not be just "Republican" because, Lord bless us, there are many Democrats in this body who have demonstrated by their votes and by their speeches that they also feel the real course of action should be to get our expenditures down to within our means.

This is the real recommendation from our side of the aisle, get expenditures down.

Yes, we can continue to substitute private lending for public, but we should do it on a straightforward basis. Above all, when we are trying to handle the difficult problems of debt management,

do not "kid" the public—I hope you do not get away with it—by saying this is holding to low interest rates. Come forthrightly forward and let the Federal Treasury market this debt with efficiency, and remove the 4¼-percent ceiling so that they can save the taxpayers some money, rather than just monetizing the debt in the way they must market it in short-term issues.

NEGOTIABLE CERTIFICATES OF DEPOSIT ISSUED BY MONEY MARKET BANKS CAUSE HIGHER INTEREST ON U.S. TREASURY SECURITIES

Mr. PATMAN. Mr. Chairman, it was long ago predicted that high rates on time deposits offered corporations by commercial banks would seriously interfere with the Treasury bill market and most likely lead to higher interest costs and contribute to deficits in the Federal budget.

For instance, Gov. J. L. Robertson, of the Federal Reserve Board, in his December 1956 dissent in the Federal Reserve Board's decision to increase regulation Q observed:

Finally, it should be noted that if the ceilings are raised sufficiently to be effective, they will enable commercial banks to attract funds now invested in Government securities—short-term and long-term. This may have a detrimental effect on the Government securities market and even lead to higher levels of interest rates generally, as applied to the borrowing public. I doubt the need for, and prospective benefits of, a present change in the ceiling rates on time and savings deposits are such as to warrant risking this possible consequence.

Also, the study by the Federal Reserve Bank of New York published in April 1963 commented that, after regulation Q was increased effective January 1, 1962, "commercial banks were apparently successful in diverting funds from the markets for Treasury bills and municipal securities." There is no doubt that the Federal Reserve Board had encouraged CD competition with Treasury bill rates. The report continues:

CD's are highly sensitive to competing open market interest rates and, as a result, their increase slowed down in the second half of 1961, when Treasury bill rates started to rise. The rise in Treasury bill rates toward the Regulation Q ceiling narrowed the margin between present yields and CD rates on six-month maturities to only one-eighth of a percentage point in December 1961. Largely because of this, the volume of outstanding CD's stopped growing and then began to recede, falling back to the July level by the year end.

Indeed, time deposits experienced slower growth in the latter part of 1961 as depositors sensitive to interest rate differentials—particularly business establishments, foreign official institutions, and state and local governments—turned to Treasury bills.

Hence the Federal Reserve increase in regulation Q effective January 1, 1962.

More recent comments in the aftermath of the Federal Reserve Board's increase in regulation Q in December 1965 are worthy of attention.

The February issue of Banking magazine, the official organ of the American Bankers Association, on page 39, stated with respect to the emergence of negotiable CD some 5 years previously:

The Fed was aware that the issuance of negotiable CD's in large denominations, attracting funds which otherwise would be in-

vested in readily marketable Treasury bills or prime commercial paper might influence the terms and conditions under which short-term U.S. Government securities are bought and sold.

And, the Fed was aware that "readily marketable CD's issued in large denominations by well known banks compete directly with short-term treasuries, commercial paper, sales finance company paper, and bankers' acceptance."

Dr. Paul S. Nadler, writing in the same issue of Banking, stated on page 50:

Many banks first looked at the CD as defensive instrument to keep corporate treasurers and municipal officials from removing their excess balances and placing the money in Treasury bills and other money market instruments.

Similarly, Dunn's Review of February 1966, on page 45, states that corporate treasurers "turned chiefly to Treasury bills where there was no risk, plenty of liquidity and a wide assortment of maturities to choose from—an important factor when dividend and tax payments must be met."

It is interesting to note that the Federal Reserve Board's action of 1965 in raising regulation Q also included shortening permissible maturities to 30 days to provide banks the opportunity to offer any possible maturity a corporate treasurer might desire in order to prevent his idle cash from entering the Treasury bill market.

That the emergence of the negotiable CD has an \$18 billion money market instrument has adversely affected Treasury bill rates over the course of the past 5 years is beyond dispute. The negotiable CD is not at all definable as a true bank deposit. It is really a money market instrument which the money market banks utilize fully as a borrowing device to attract large amounts of volatile short-term interest sensitive funds in competition with other money market instruments. The emergence of the negotiable CD and its impact on the Treasury bill market would have been utterly impossible without the willing cooperation of the Federal Reserve Board in raising the interest ceiling and lowering minimum maturities four times just since 1961.

With Treasury bill rates the highest since the days of the Eisenhower tight money administration, the CD problem demands an immediate solution by Congress.

Mr. BROCK. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from Tennessee.

Mr. BROCK. The gentleman has mentioned spending. I believe this is one of the primary concerns with respect to this bill.

We have witnessed the contradiction implied not only in the bill but also in the understanding of it. We heard the remarks of the gentleman from California and of the gentleman from New Jersey. One implied, in effect, that we could create within these agencies a revolving fund, and the other said we could not.

For that matter, the bill itself is a contradiction; one section says it can be done and another says it cannot.

If an authorization ceiling of \$100 million is placed on an agency, they could make loans, then take them and sell them to Fannie Mae and make \$100 million, and then make new loans in that amount, and then resell the loans, and make new loans and sell again—three, four, five, six, seven, or eight times.

The bill is completely inconsistent in the spending area.

This is a matter of grave concern. The committee should have handled it. Because the committee did not, it is up to the House of Representatives to handle it.

Mr. CURTIS. I thank the gentleman. I again make the observation that there is a reason for this undue haste, which men on the other side of the aisle have pointed out. This is the undue haste with which this matter has been rammed through the Banking and Currency Committee. It demonstrates an attempt to hide the sham behind the problem involving the interest rate ceiling and the ceiling on the amount of the debt.

Mr. MULTER. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from New York.

Mr. MULTER. On the last point first, we are concealing nothing, and everybody knows there is no concealment here, whether on the debt ceiling or the other.

Mr. CURTIS. The gentleman and I are at a difference, obviously. Of course, those on the other side do not want to be accused of concealing. I believe the Record is clear. This is one of the most shameful records I have witnessed in the 16 years I have been in the Congress. I believe there has been concealment. I believe it has been a sham. I believe it is a shame.

The CHAIRMAN. The time of the gentleman from Missouri has expired.

Mr. PATMAN. Mr. Chairman, I yield the gentleman 1 minute, and I ask the gentleman to yield to answer a question.

Mr. CURTIS. I yield to the gentleman from Texas.

Mr. PATMAN. With all due respect to the gentleman—and I do have great respect for him and high regard—his argument seems to be that this is a fine proposal during a Republican administration but a bad proposal during a Democratic administration.

Mr. CURTIS. No. The gentleman was not listening to what I said. Perhaps others who read the RECORD will feel the same, but I have tried to point out the difference of opinion.

I have alleged that you people have used a very good label, a fine objective, but have distorted it in the details.

Mr. MULTER. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from New York.

Mr. MULTER. With reference to the colloquy the gentleman had with the gentleman from Tennessee, there is not any doubt, in using the language, we may mean the same thing by using different language. We made it perfectly clear that we intend that no revolving fund may use \$1 more than is authorized and appropriated to it. We will offer an amendment, when we get to the 5-minute rule, which will make it adequately clear

that is all that is intended here, and there is no additional power.

Mr. CURTIS. It would have been better if the committee had done its homework first.

Mr. PATMAN. Mr. Chairman, has the gentleman from New Jersey [Mr. WIDNALL] finished?

Mr. WIDNALL. I want to yield only for a unanimous-consent request.

Mr. Chairman, I now yield to the gentleman from Indiana [Mr. BRAY].

(Mr. BRAY asked and was given permission to revise and extend his remarks.)

Mr. BRAY. Mr. Chairman, this bill sets a new high in legislative ledger-main, although that is an honor not to be lightly bestowed.

The main purpose of the bill, it seems to me, is to try to confuse the public about the amount of Federal spending going on this year.

The administrative budget predicts a budget deficit of \$1.8 billion. That is based on so-called participation sales of \$4.7 billion of financial assets.

In other words the proposed deficit would be \$6 billion were it not for the sale of \$4.2 billion in assets.

If we knew an individual who sold part of his capital assets and counted it for income we would think him very foolish.

If a farmer sells part of his acreage and then brags about his income, we know he is following a course which will lead to financial ruin.

Obviously, by this kind of sleight of hand it would be possible to balance the budget and even show a surplus. The trouble is you can only sell assets once. If they are sold this year, they cannot be sold again next year, and you have that much more of a problem in meeting expenditures.

There are other considerations which make this legislation very undesirable, but to me the attempt to cover up the actual level of Government spending by such a shoddy device is more than reason enough in itself.

Mr. PATMAN. Mr. Chairman, I yield such time as he may use to the gentleman from Georgia [Mr. WELTNER].

(Mr. WELTNER asked and was given permission to revise and extend his remarks.)

Mr. WELTNER. Mr. Chairman, in my previous remarks today I indicated that it has been impossible for the Treasury to sell long-term bonds in most recent years because of the fact that the market would not purchase them due to statutory 4¼-percent interest rate maximum they could carry.

Essentially this statement is correct. However, it is true that there have been several advanced refunding issues involving long-term bonds, and several relatively small new bond issues, which the Federal Government in several years past has been able to float.

Mr. O'NEAL of Georgia. Mr. Chairman, the Sales Participation Act of 1966 is another sad example of the smoke of ingenious ideas hiding but evidencing the fires of economic trouble. The reasons

offered for wanting private capital in Federal loan programs are cloaked in free enterprise terminology. However, the real reason for the bill is to brush aside our publicly acknowledged budget deficit.

The truth is that the Federal Government has spent itself into a financial straitjacket. We have witnessed 5 straight years of Federal budget deficits averaging \$6.2 billion, shrinking gold reserves, a serious balance-of-payments deficit, very substantial budget increases, frequent extensions in our temporary debt limit, the removal of silver from coins, a reduction in the gold that backstops our currency, the recent reinstatement of excise taxes, and a host of additional indications of economic plight.

It is axiomatic in our society that when a business enterprise has to discount its notes in order to meet operating expenses, it is a sure sign of financial trouble.

The Sales Participation Act is equivalent to discounting notes with recourse, I repeat, with recourse, in order to meet operating expenses—or what we can even less afford—huge charitable contributions at home and abroad that do little more than throttle the ambition of recipients.

It is a standard procedure to ask every youngster what he wants to be when he grows up. As a child, I had what I childishly thought was a clever answer. I said I wanted to be a philanthropist, and when this prompted the inevitable "why" my reply was that I noticed that every philanthropist I read about was very wealthy.

Of course, at that time, I had no way of knowing that Uncle Sam would kick the traces and become an exception to the rule. He has long had the image of one with limitless financial capacity, but sadly enough his image has been tarnished in recent years.

It is ironic that at the very time the administration is asking us to vote in a Participation Sales Act, we are giving away increasing amounts of money—especially in the area of unappreciated foreign aid. How much longer can we continue on this course? If we cannot pay our public debts in a boom period, when can we pay them?

It appears that the United States has only three alternatives to avoid an impending economic crisis. We can, first, continue to extend the debt limit; second, increase taxes; or third, substantially reduce Government spending. Extending the debt limit has become a ritual in Congress, and the administration is seriously considering an increase in taxes. But we continue to ignore the third and sensible alternative—a decrease in spending.

In fact, we are considering a bill today which makes it possible for the Federal Government to make our financial situation appear in better shape for further waste and extravagance.

I will happily support the Sales Participation Act of 1966 if an amendment is adopted to apply the proceeds on the national debt.

Mr. ANNUNZIO. Mr. Chairman, the

proposed Sales Participation Act addresses itself to a problem which has been a concern of three administrations, two Democratic and one Republican. The problem is this: What to do with direct Federal lending programs which immobilize larger and larger sums of budget dollars in a bulging, overflowing Federal portfolio of loan paper.

The Government has been selling off these assets—and they are assets, for they are bona fide promises to pay on the part of borrowers with an excellent repayment record over the years—selling these assets to private investors for well over 10 years.

But there are problems associated with direct sales of these assets—problems which are difficult to solve and which place effective limitations on the amount of assets which can be sold in the market.

These problems have given rise to the technique known as participation sales, which gets around most of the difficulties. The technique has been used with success by the Export-Import Bank and the Federal National Mortgage Association—Fannie May.

The participation technique consists of grouping loans in pools and selling participations or shares in the pools rather than selling the underlying loans directly. It is a natural development in the financing of Federal credit programs.

The Government's essential function becomes one of underwriting the credit risk and thus facilitating the flow of funds from investors to borrowers who do not have ready access to capital markets.

The sale of participation certificates backed by the Government makes it feasible for private investors to invest in a variety of programs in which the borrowers' names and credit standings are not well known. The Federal Government acts as an intermediary.

In most Federal credit programs, the Government assumes the credit risk or most of it. The reason is that private lenders are either unwilling or unable to assume the loan risks on the credit terms and conditions necessary to meet the objectives we have established for the programs. By assuming the risk, the Government stimulates the flow of funds from private investors to communities, organizations, and individuals.

Assumption of the risk is essentially the same, whether in a guaranteed loan, an insured loan, or a pool of direct loans in which guaranteed participations are sold.

The Participations Sales Act of 1966 is a natural evolution in the development of more efficient financing techniques. This legislation will strengthen the private market in its ability to support the credit programs which our society and economy need. It will also reduce the total of scarce budget dollars tied up unnecessarily in the portfolio of loans which the Government will be carrying.

I urge full support of H.R. 14544.

Mr. PATMAN. Mr. Chairman, I yield such time as he may use to the gentleman from Texas [Mr. MAHON], the

chairman of the Committee on Appropriations.

Mr. MAHON. Mr. Chairman, when I first heard of this legislation I was inclined to be skeptical and doubtful that Congress should take this action. Now that I have listened to some of the debate and had opportunity to study the legislation, I see nothing really wrong with it.

I realize that it will authorize actions that will, to those who do not give it adequate consideration, make the national debt appear lower and make the administrative budget seem smaller. But why should that deny a bill if it otherwise is valid and makes good sense. Why should not these loan assets, which the Government owns, be pooled as a basis for sale of these certificates?

It is not creating a false picture to indicate what the real truth is, namely, that the obligation will be paid and that the payment from the Treasury generally will be the disparity between what the interest rates might be and the losses that the Government may take. These losses will be out in the open for all to see to a greater degree than heretofore.

I realize that for many years the budget and appropriation system has to some extent been confusing. I know of a project in the district which adjoins mine, a reclamation project, to provide water for several cities, which will cost about \$90 million. According to the present system of budgeting, this shows up as an outlay by the Government that from first appearances will never be returned, just like buying an Army tank or a military aircraft. Actually, though, more than 90 percent of the money spent on this project will be repaid under the repayment provision of the reclamation law. This is not on all fours with exact budget techniques involved in the pending bill, but it emphasizes a point which I think is valid.

If there were no precedent for the procedure involved in this bill and if we had not been doing it from year to year, it might be something we would approach with far greater concern.

But we have done some of this. It seems to be acceptable. It has been recommended by previous administrations. However, whether anyone recommended it or did not recommend it, or whether the Republicans are for it and whether the Democrats are for it is not the point. The point is this: Is this a wise and proper action?

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. MAHON. Not for the moment.

Mr. Chairman, a portion of my skepticism about this was that the Congressional appropriations review process would be bypassed or undermined. This was the thing that gave me a great deal of concern in the early consideration of this matter.

Of course, as chairman of the Committee on Appropriations, I am quite jealous of its prerogatives, as all committee chairmen tend to be. But more than that, I am jealous of the prerogatives of the Congress and not just of the committee.

Mr. Chairman, as I see it, we do not lose any of the controls which we have

previously had. On the other hand, some of these controls will be strengthened, and all of these participation sales will have to be approved in advance in appropriation bills.

Mr. Chairman, I have heard some discussion here about the continuous purchase of certificates from the revolving funds. Of course, you could continue to purchase the certificates from the revolving fund, if Congress gives its approval to do so, but not otherwise. And, if this is not the clear intent of the bill—the one now pending before us—I certainly would support any action to make this perfectly clear. However, from my knowledge, it is perfectly clear.

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. MAHON. I am glad to yield to my distinguished colleague from North Carolina.

Mr. JONAS. I am very much interested in what my friend, the distinguished chairman of the Committee on Appropriations, is saying, because I have approached my consideration of this subject from that same point of view. There are certain rules of the House which require that the Appropriations Committee shall initiate appropriations, and no funds can be withdrawn from the Treasury, except by appropriations, as is provided for in the Constitution.

I do not understand, and I direct the attention of the gentleman from Texas, to the language contained in paragraphs 4 and 5 on page 6 of the bill. I have read these paragraphs many times and I must say that in my judgment they violate not only the rules of the House but also the Constitution of the United States.

It seems to me that the Appropriations Committee is being turned into an authorizing committee and that the legislative committee is doing the appropriating.

I would appreciate if the distinguished chairman of the Committee on Appropriations would point out wherein I am wrong in that construction of this language.

Mr. MAHON. The gentleman from North Carolina knows that we have been in this business of disposing of these assets over a period of years, under certain circumstances—under the FNMA, under the Veterans' Administration loan program, and otherwise. As I see it, there is no really radical change in that procedure as a result of this bill. My interpretation of the bill is, as has been pointed out previously in my remarks, that the Appropriations Committee itself would initially determine whether or not and to what extent these certificates would be sold. Then the House and the Senate would have to pass on the matter.

Mr. JONAS. May I make a statement?

Mr. MAHON. I yield to the gentleman.

Mr. JONAS. I do not believe it can be shown that any previous legislation has ever contained language even close kin to that contained in paragraphs 4 and 5 of section 2 of this bill. As I understand it, this language has never before appeared in legislation during our entire history—it is entirely unprece-

dented. Now that fact alone would certainly not condemn it, but I suspect this sort of thing has never before been tried because it seems to me to be a violation of the rule that gives exclusive jurisdiction over appropriations to the Committee on Appropriations. What we have here is an indefinite, automatic appropriation based upon a blanket authorization to be made by the Committee on Appropriations. The amount of funds used will not be determined by the Committee on Appropriations but by the terms of the trust instrument which will be dictated by New York City bond attorneys instead of by Congress.

Mr. MULTER. Mr. Chairman, will the gentleman yield?

Mr. MAHON. I yield to the gentleman.

Mr. MULTER. I want to undertake to answer the question that has been raised by saying that during the discussion in our Committee on Banking and Currency, we found heretofore none of these agencies when disposing of government obligations had to go to the Committee on Appropriations for such appropriations. Now we are writing into this bill for the first time, and now this bill will require that all of these agencies before selling any of these Government obligations, which we own, at a discount—the discount must be made available to them by the Committee on Appropriations and by an appropriation by the Congress.

Mr. JONAS. But the amount of the subsidy, on the discount if you prefer that term, will not be determined in advance by an appropriation act because that act will only authorize the issuance of an "aggregate principal amount" and this somehow by the terms of this bill gets converted into an obligation to comply with the terms of the trust instrument.

Your own committee report on page 5 reads as follows:

Thus, purchasers of participations would be assured of timely payments of principal and interest without further action by the Congress.

Mr. MULTER. Mr. Chairman, will the gentleman from Texas yield further?

Mr. MAHON. I yield to the gentleman.

Mr. MULTER. I use the word "discount" very loosely. What we are doing here is this. We have, for instance, disaster loans which carry a 3 percent interest rate. That carries less than the going interest rate.

This instrument is now going to be sold to the purchaser so as to yield the going rate. Therefore, the Government must make up the difference. The difference is what I have called loosely the "discount." Heretofore they have been able to do that without any authorization. They have the right to do it. Now we say that from now on before you do that, go to the Congress and get a law authorizing you and an appropriation of the money to make up that difference before you sell it at that difference.

Mr. JONAS. I do not find that spelled out in the bill. I hope the gentleman will support an amendment to express this as the clear intent of Congress.

Mr. MULTER. That is the intent of the section you have referred to which is subdivision 4, page 6.

Mr. JONAS. Well, it does not say that.

Mr. EVINS of Tennessee. Mr. Chairman, will the gentleman yield?

Mr. MAHON. Of course, this is a matter of interpretation. I yield to the gentleman from Tennessee.

Mr. EVINS of Tennessee. I do not know that I can clarify the matter. But we had before our committee Mr. Baughman, who is the chairman of Fannie Mae. He specifically emphasized there was nothing new about this procedure. There was some strengthening provision put in the law and they would have to give to the Congress a justification for an appropriation for interest payments. We are following the same pattern that we have been following on the other sales of securities except that the Director of Fannie Mae serves as a trustee in this capacity.

Mr. MAHON. Mr. Chairman, I reassert and repeat my statement that I believe the action proposed here does not do violence to the appropriation process of the Congress of the United States, the House of Representatives and the other body; and that it gives us in some respects more safeguards than we now have.

I think the action proposed in this bill—out in the open and aboveboard, is sound in concept. I do not hesitate to express my approval of this legislation.

I am not sure about all of the people and all of the organizations who are for it or against it. I, as a member of the Committee on Appropriations and as a Member of the Congress, have studied it. I am not maintaining that the bill is perfect in every respect. Adjustments and refinements based on experience may be required from time to time. But I am in favor of it and I believe it ought to be passed. I believe it to be in the public interest in the years to come that we handle these matters and these obligations in the way proposed in this legislation. I think we have the safeguards that in my judgment we need to have.

Mr. WIDNALL. We have no further requests for time.

Mr. PATMAN. Mr. Chairman, we have no further requests for time, and I ask that the Clerk read.

The Clerk read as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Participation Sales Act of 1966".

Mr. PATMAN. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly, the Committee rose; and the Speaker having resumed the chair, Mr. KEOGH, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes, had come to no resolution thereon.

GENERAL LEAVE TO EXTEND

Mr. PATMAN. Mr. Speaker, I ask unanimous consent that all Members speaking on the bill today have the privilege of extending their remarks and including extraneous matter, and that all Members may have the privilege of extending their remarks and including extraneous material.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

LEGISLATIVE PROGRAM FOR THE BALANCE OF THIS WEEK

Mr. GERALD R. FORD. Mr. Speaker, I ask unanimous consent to proceed for 1 minute for the purpose of asking the distinguished majority leader the schedule for the remainder of the week.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. ALBERT. Mr. Speaker, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the gentleman from Oklahoma.

Mr. ALBERT. Mr. Speaker, in response to the inquiry of the distinguished minority leader, we plan to conclude consideration of H.R. 14544, the Participation Sales Act of 1966, tomorrow.

The minimum wage bill, H.R. 13712, previously announced, will go over until next week.

I would like to advise Members for their information that in addition to continuation of consideration of the Participation Sales Act, the following matters are added to the program for tomorrow:

The conference report on H.R. 14215, Department of Interior appropriation bill for fiscal year 1967, will be called up by the gentleman from Indiana [Mr. DENTON].

Also tomorrow the gentleman from Massachusetts [Mr. PHILBIN] has advised that he will call up by unanimous consent the following bills unanimously reported by the Committee on Armed Services.

H.R. 13768, to authorize disposal of celestite from supplemental stockpile;

H.R. 13769, to authorize disposal of cordage fiber—sisal—from national stockpile;

H.R. 13770, to authorize disposal of crocidolite asbestos—harsh—from supplemental stockpile;

H.R. 13772, to authorize disposal of metallurgical grade manganese ore from national stockpile and supplemental stockpile;

H.R. 13773, to authorize disposal of opium from national stockpile;

H.R. 13366, to authorize the disposal of aluminum from national stockpile.

Mr. GERALD R. FORD. May I ask the distinguished majority leader in what order we will proceed tomorrow? Will the conference report come up first and then these unanimous-consent requests?

Mr. ALBERT. Yes, we would handle the conference report first, and I would think we would try to dispose of these unanimous-consent bills immediately

thereafter. They should not take much time.

Mr. GERALD R. FORD. I have been asked by a number of Members on our side if there is any plan to meet on Monday, May 30.

Mr. ALBERT. If the gentleman will yield, we have made no plans with reference to that matter. I would like to consult with other Members of the leadership, particularly the Speaker. I am sure we will not have any legislative business on Memorial Day, if that is what the gentleman means.

Mr. GERALD R. FORD. I thank the distinguished majority leader.

RESIGNATIONS OF MEMBERS OF UNITED STATES-CANADA INTER-PARLIAMENTARY GROUP

The SPEAKER laid before the House the following communications, which were read:

MAY 17, 1966.

HON. JOHN W. MCCORMACK,
House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Since it will not be possible for me to attend the May meeting of the United States-Canada Interparliamentary Group, I ask that my resignation as a member of the House Delegation be accepted so that an alternate can be appointed.

Sincerely yours,

STANLEY R. TUPPER,
Member of Congress, Maine.

MAY 13, 1966.

HON. JOHN MCCORMACK,
Speaker of the House,
House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: I was indeed sorry to find that I will be unable to join the members of the House Delegation to the Ninth Meeting of the Canada-United States Interparliamentary Group May 18 through 22. I have advised the Committee on Foreign Affairs of my inability to attend.

It is with much regret that I must ask that I be removed as a member of the United States-Canada Interparliamentary Group. It has been an honor to serve with these fine representatives, and I regret my inability to continue as a member.

My thanks for your assistance, and my warmest personal regards.

Sincerely yours,

ROBERT N. GIAIMO,
Member of Congress.

The SPEAKER. Without objection, the resignations will be accepted.

There was no objection.

APPOINTMENT OF MEMBERS OF THE CANADA-UNITED STATES INTERPARLIAMENTARY GROUP

The SPEAKER. Pursuant to the provisions of section 1, Public Law 86-42, the Chair appoints as members of the Canada-United States Interparliamentary Group the gentleman from West Virginia [Mr. KEE] and the gentleman from Tennessee [Mr. DUNCAN], to fill the existing vacancies thereon.

CORRECTION OF ROLL CALL

Mr. MATSUNAGA. Mr. Speaker, on rollcall No. 101, on May 16, a quorum

call, I am recorded as being absent. I was present and answered to my name. I ask unanimous consent that the permanent Record and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Hawaii?

There was no objection.

SO MUCH IS RIGHT: THE RECORD OF SECRETARY OF DEFENSE McNAMARA

(Mr. PRICE asked and was given permission to address the House for 1 minute, to revise and extend his remarks, and to include a newspaper editorial.)

Mr. PRICE. Mr. Speaker, in my years of experience in Congress I have found it is those with the courage to make positive decisions in the interest of our country who come in for the most criticism. That is understandable because there is always room for differences when decisions are being made. The greatest good is accomplished, however, by men willing to assume the responsibility of decision-making, even in the face of criticism.

I have not always been in agreement with the Secretary of Defense but in retrospect I can see in Robert S. McNamara the kind of strong leader Congress looked for when it created the Office of Secretary of Defense. At great personal sacrifice McNamara accepted the challenge of directing the Nation's Military Establishment and he has accomplished much to assure its efficiency and effectiveness thereby advancing our national security.

More and more people throughout the country are beginning to realize this. Witness for instance the writings of the well-known columnist, Roscoe Drummond. Under leave to do so I include with my remarks Mr. Drummond's column which appeared in the Chicago Sun-Times of Saturday, May 14, 1966. It follows:

McNAMARA RECORD: SO MUCH IS RIGHT (By Roscoe Drummond)

WASHINGTON.—Robert S. McNamara is the most durable secretary of defense the Pentagon has ever had.

In one important sense McNamara is the first secretary of defense the Pentagon has ever had, because he is the first civilian to have won command of the decision-making process of the most powerful arm of the most powerful nation in the world.

McNamara will win no popularity contest in Washington, either in the Pentagon or in Congress.

There are two main reasons. He has forced and end to the warring and wasteful sovereignties of the services—Army, Navy, Air Force, Marine Corps. I can remember when the Joint Chiefs of Staff were so disjoined that they couldn't even agree on their missions in the event of war and each laid out war plans that ignored the others.

The effect of this kind of competing disunity within the services was to shift to Congress much of the decision as to how the total defense budget would be divided, a military-financial decision which ought to be made in the Pentagon. Today it is. Congress used to relish the old days and resents the extent to which McNamara has both persuaded and coerced the Joint Chiefs into a working unity under powerful civilian command.

McNamara is not popular in the Pentagon, but he is respected and valued. McNamara is not popular in Congress, but when a reporter asks a critical congressman if he would like to see McNamara quit, he invariably replies, "Heavens, no."

I am not suggesting that McNamara can do no wrong, that his judgment has been infallible. But I do report that he has done so much that's right at the right time that even his critics would be horrified at the prospect of having him leave.

Here are some of the things he has done: War readiness—When the President decided to put troops into the field in Viet Nam, we were able to move 100,000 men, plus all supporting materiel, 10,000 miles in about 120 days and these troops began fighting almost at once with high morale, and many more have followed.

War supplies—Despite the recurring disorder and limited harbor facilities, there have been no serious shortages. They have been few and minor and temporary.

Advance planning—We would not have been able to come to the defense of South Viet Nam effectively if McNamara, with President John F. Kennedy's support, had not moved in 1961 to strengthen the conventional and guerrilla-trained forces of the Army. McNamara not only recognized clearly but acted on the premise that the nuclear stalemate would not deter aggression by non-nuclear means. In 1962, two years before we began fighting in Viet Nam, he added to the budgets of all the services in order to make sure they would have the equipment and supplies to match their war plans.

I doubt that there is any "shocking mismanagement" in this record.

DAIRY IMPORT ACT OF 1966

(Mr. RACE asked and was given permission to address the House for 1 minute, to revise and extend his remarks, and to include a copy of the bill which he has introduced.)

Mr. RACE. Mr. Speaker, I today introduce for appropriate reference the Dairy Import Act of 1966.

This bill would confirm the right of Congress to control foreign trade in milk, cheese, and other dairy products. It is a just and reasonable bill which provides adequate protection for both and producer and the consumer of dairy products. At the same time, it provides the flexibility needed to make it a workable piece of legislation.

In view of the fact that our Nation's farmers, and particularly the dairy farmers, have faced economic hardships unparalleled in American history since the days of the factory sweatshop, I feel this measure is a very vital step—a very necessary step—toward putting the farmer back onto a sound economic footing.

For the first time in more than a decade, farmers are beginning to see a glimmer of hope for the future. However, the action by the Tariff Commission in allowing larger and larger quantities of dairy products to be imported is severely restricting the operation of existing dairy programs enacted by Congress and is threatening to completely repulse the dairy farmers' attempted return to the affluent society.

This measure, which was introduced by the senior Senator from Wisconsin in the other body, is a moderate, flexible measure which is in the best interest of both the farmer and the taxpayer.

H.R. 15103

(A bill to regulate imports of milk and dairy products, and for other purposes)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Dairy Import Act of 1966."

SEC. 2. No imports of dairy products shall be admitted to the United States for consumption except pursuant to authorizations issued by the Secretary of Agriculture in accordance with the provisions of this Act.

SEC. 3. No authorizations for imports of dairy products shall be issued by the Secretary which would result in total imports for consumption of dairy products in any calendar year in excess of the total average annual quantity thereof which was admitted for consumption during the five calendar years 1961 through 1965.

SEC. 4. In the event that total annual domestic consumption of dairy products in any calendar year shall be greater or less than the average total annual domestic consumption of dairy products during the five calendar years 1961 through 1965, the total annual volume of imports for such calendar year authorized under section 3 shall be increased or decreased by a corresponding percentage.

SEC. 5. The President may permit, if he finds such action to be necessary in the public interest, additional quantities of imports of any dairy products the importation of which is regulated under this Act. Additional imports permitted under this section shall be admitted for consumption under special authorizations issued by the Secretary. No additional imports shall be admitted for consumption under this section at a time when prices received by dairy farmers for milk on a national average as determined by the Secretary are at a level less than parity, unless the Secretary shall, at the time such imports are admitted, remove from the domestic market, in addition to other price support purchases and operations, a corresponding quantity of dairy products. The cost of removing such dairy products from the domestic market shall be separately reported and shall not be charged to any agricultural program.

SEC. 6. "Dairy products" for the purpose of this Act includes all forms of milk and dairy products, butterfat, and nonfat milk solids, and any combination or mixture thereof, and also any article, compound, or mixture containing 10 percent or more of butterfat, nonfat milk solids, or any combination of the two. For the purpose of computing quantities of dairy products under this Act, the Secretary may make such computations, in whole or in part, in terms of the butterfat and nonfat milk solids contained in such dairy products.

SEC. 7. The Secretary may prescribe such rules and regulations as he deems necessary for the effective administration of this Act.

SEC. 8. Import controls under this Act shall supplement import controls under section 22 of the Agricultural Adjustment Act and shall apply to dairy products not actually being controlled at the time by quantitative limitations under said section 22 and also to dairy products which at the time are being controlled by such quantitative limitations but at levels which permit a greater quantity of imports than prescribed by this Act.

THE RIGHTS AND DUTIES OF CITIZENSHIP

(Mr. HECHLER asked and was given permission to address the House for 1 minute, and to revise and extend his remarks and include an address.)

Mr. HECHLER. Mr. Speaker, the Honorable Sidney L. Christie, U.S. District Judge for the Northern and South-

DIGEST of Congressional Proceedings

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Issued May 19, 1966
For actions of May 18, 1966
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HIGHLIGHTS: House agreed to conference report on Interior appropriation bill, including Forest Service. House passed participation sales bill. House committee voted to report food-for-freedom bill.

HOUSE

1. **APPROPRIATIONS.** Agreed to the conference report on H. R. 14215, the Interior and related agencies appropriation bill, including Forest Service. (pp. 10378-82). See Digest 81 for a table reflecting the action of the conferees.
2. **PARTICIPATION SALES.** Passed with an amendment (to substitute the language of a similar bill, H. R. 14544) S. 3283, to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies. H. R. 14544, previously passed with amendments, was tabled. pp. 10382-413

3. POSTAL RATES. The Post Office and Civil Service Committee reported without amendment H. R. 14904, to revise postal rates on certain fourth-class mail (H. Rept. 1543). p. 10459
4. STOCKPILING. Passed without amendment H. R. 13769, to authorize the disposal of cordage fiber (sisal) from the national stockpile. p. 10414
5. FOOD FOR FREEDOM. The Agriculture Committee voted to report (but did not actually report) H. R. 14929, amended, to promote international trade in agricultural commodities, to combat hunger and malnutrition, and to further economic development. p. D432
6. POVERTY. The Education and Labor Committee voted to report (but did not actually report) H. R. 15111, the proposed Economic Opportunity Act of 1966. p. D432
Rep. Rhodes, Pa., inserted an article, "Poverty War Does Vital Job Despite Flaws." p. 10422
7. ROADS. The Public Works Committee voted to report (but did not actually report) H. R. 14359, amended, to authorize appropriations for the fiscal years 1968 and 1969 for the construction of certain highways. p. D433
8. CONSERVATION. Rep. Landrum commended the progress made in Ga. through participation in sound soil and water conservation measures. pp. 10426-7
9. RECREATION. Rep. Wydler protested the proposed building of two dams in the Grand Canyon. pp. 10429-30
10. INFLATION. Rep. Curtis inserted two articles taking "a highly critical look at the administration's policy to deal with inflation." pp. 10435-6
11. INFORMATION. Rep. Rhodes, Ariz., inserted the Republican Policy Committee statement urging enactment of the freedom of information bill. pp. 10437-8
12. FORESTRY. Rep. George W. Andrews commended the running of the first forestry special train in Ala. carrying top forestry, governmental, and industrial leaders to a field forestry demonstration. pp. 10442-4
13. RESEARCH. Received from Interior a proposed bill to authorize that Department to contract for scientific and technological research; to Interior and Insular Affairs Committee.

ITEMS IN APPENDIX

14. FARM PROGRAM. Rep. Tunney inserted Lionel Steinberg's statement on Calif. agriculture on the occasion of the visit of Under Secretary Schnittker. pp. A2677-8
15. MEAT IMPORTS. Extension of remarks of Rep. Berry expressing "great alarm and fear" on the rapidly increasing meat imports. p. A2681
16. PEANUT BUTTER. Extension of remarks of Rep. O'Neal, Ga., calling attention to the nutritious value of peanut butter "the most important food in the school lunch program", and inserting an article, "Youngsters Cling to Peanut Butter." p. A2682

Mr. CONTE. I will go along with the committee this year, but will not go along with it again. If one university is allowed \$40,000 for its wildlife management program, then every State university should be allowed the same amount of money. We should not discriminate here. You cannot make fish of one and fowl of another. You rest assured I will be watching this item next year and hope that the committee will go along with full funding of this program.

Mr. WALKER of New Mexico. Mr. Speaker, will the gentleman yield?

Mr. DENTON. I yield to the gentleman from New Mexico.

Mr. WALKER of New Mexico. Mr. Speaker, I, too, want to say that I appreciate the sympathy and consideration that this group has given to the Tularosa School District, and I would hope that next year we can proceed with this project, because it is important, not only to the white children, but to the Indian children, that we give this school help.

Mr. Speaker, I have found that during the short time I have been here, we have spent considerable sums of money and that we have given a lot of attention to the world insofar as education is concerned. I believe it is only proper that we take care of some of our own people. I thank the gentleman from Indiana very much for yielding to me this time.

Mr. EDMONDSON. Mr. Speaker, I want to commend the House conferees for the action taken in conference to improve the funding picture for Indian programs, especially those in Oklahoma which had been severely cut in the budget.

The conference changes are a substantial victory for the Indian extension and housing programs in Oklahoma, and are deeply appreciated.

The \$93,000 for planning of a new Public Health Service hospital at Claremore, Okla., will pave the way to construction of a new facility which is urgently needed. I hope there will be no further delay in construction of this new hospital.

The undertaking of the distinguished chairman of the subcommittee, the Honorable WINFIELD DENTON, and of his great subcommittee, is very much appreciated.

Mr. DENTON. Mr. Speaker, I move the previous question.

The previous question was ordered.

The SPEAKER. The question is on agreeing to the conference report.

The question was taken; and the Speaker announced that the ayes appeared to have it.

Mr. GROSS. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

The Doorkeeper will close the doors, the Sergeant at Arms will notify absent Members, and the Clerk will call the roll.

The question was taken; and there were yeas 378, nays 10, not voting 43, as follows:

[Roll No. 105]

YEAS—378

Abernethy	Duncan, Oreg.	King, N.Y.
Adair	Duncan, Tenn.	King, Utah
Adams	Dwyer	Kirwan
Addabbo	Dyal	Kluczynski
Albert	Edmondson	Kornegay
Anderson, Ill.	Edwards, Ala.	Kunkel
Anderson, Tenn.	Edwards, Calif.	Kupferman
Andrews	Erlenborn	Landrum
George W.	Evans, Colo.	Langen
Andrews	Everett	Latta
Glenn	Evins, Tenn.	Lennon
Andrews	Fallon	Lipscomb
N. Dak.	Farbstein	Long, La.
Annunzio	Farnsley	Lovc
Arendt	Farnum	McCarthy
Ashbrook	Fascell	McClary
Ashley	Feighan	McCulloch
Ashmores	Findley	McDade
Aspinall	Fino	McDowell
Ayres	Fisher	McEwen
Bandstra	Flood	McFall
Barrett	Flynt	McGrath
Bates	Foley	McMillan
Battin	Ford, Gerald R.	McVicker
Beckworth	Ford,	Macdonald
Belcher	William D.	Machen
Bell	Fountain	Mackay
Bennett	Frascr	Mackie
Berry	Frelinghuysen	Madden
Betts	Friedel	Mahon
Bingham	Fulton, Pa.	Mailliard
Blatnik	Fulton, Tenn.	Marsh
Boland	Fuqua	Martin, Ala.
Bolton	Garmatz	Martin, Nebr.
Bow	Gathings	Matsunaga
Brademas	Gettys	Matthews
Bray	Giaimo	May
Brooks	Gibbons	Meeds
Broomfield	Gilbert	Miller
Brown, Calif.	Gilligan	Mills
Brown, Clarence J., Jr.	Gonzalez	Minish
Broyhill, N.C.	Grabowski	Mink
Broyhill, Va.	Gray	Minshall
Buchanan	Green, Oreg.	Mize
Burke	Green, Pa.	Moeller
Burleson	Greigg	Monagan
Burton, Calif.	Grider	Moore
Burton, Utah	Griffiths	Moorhead
Byrne, Pa.	Grover	Morgan
Byrnes, Wis.	Gubser	Morris
Cabell	Gurney	Morse
Cahill	Hagen, Calif.	Morton
Callan	Haley	Mosher
Callaway	Hallick	Multer
Cameron	Halpern	Murphy, Ill.
Carey	Hamilton	Murphy, N.Y.
Casey	Hanley	Natcher
Cederberg	Hanna	Nedzi
Chamberlain	Hansen, Iowa	Nelsen
Chelf	Hansen, Wash.	O'Brien
Clancy	Hardy	O'Hara, Ill.
Clark	Harsha	O'Hara, Mich.
Clausen	Harvey, Ind.	O'Konski
Don H.	Harvey, Mich.	Olsen, Mont.
Clawson, Del.	Hathaway	Olson, Minn.
Cleveland	Hawkins	O'Neal, Ga.
Clevenger	Hays	O'Neill, Mass.
Cohelan	Hechler	Ottinger
Conable	Helstoski	Passman
Conte	Henderson	Patman
Conyers	Herlong	Patten
Cooley	Hicks	Pelly
Craley	Holifield	Perkins
Cramer	Holland	Philbin
Culver	Horton	Pickle
Cunningham	Howard	Pike
Curtin	Hull	Pirnie
Daddario	Hungate	Poage
Dague	Huot	Poff
Daniels	Hutchinson	Pool
Davis, Ga.	Ichord	Price
Dawson	Irwin	Pucinski
de la Garza	Jacobs	Purcell
Delaney	Jarman	Quie
Dent	Jennings	Quillen
Denton	Joelson	Race
Derwinski	Johnson, Calif.	Randall
Devine	Johnson, Okla.	Redlin
Dickinson	Johnson, Pa.	Rees
Diggs	Jones, Ala.	Reid, Ill.
Dingell	Jones, Mo.	Reid, N.Y.
Dole	Jones, N.C.	Reifel
Donohue	Karsten	Reinecke
Dorn	Karth	Reuss
Dow	Kastenmeier	Rhodes, Ariz.
Dowdy	Kee	Rhodes, Pa.
Downing	Keith	Rivers, S.C.
Dulski	Kelly	Rivers, Alaska
	Keogh	Roberts
	King, Calif.	Robison

Rodino	Sisk	Tunney
Rogers, Colo.	Skubitz	Tuten
Rogers, Fla.	Slack	Udall
Rogers, Tex.	Smith, Calif.	Ullman
Ronan	Smith, Iowa	Utt
Rooney, Pa.	Smith, N.Y.	Van Deerlin
Rosenthal	Smith, Va.	Vanik
Rostenkowski	Springer	Vigorito
Roudebush	Stafford	Waggonner
Roush	Staggers	Walker, N. Mex.
Roybal	Stalbaum	Watkins
Rumsfeld	Stanton	Watson
Ryan	Steed	Watts
Satterfield	Stephens	Weltner
St. Germain	Stratton	Whalley
St. Onge	Stubblefield	White, Idaho
Saylor	Sullivan	White, Tex.
Scheuer	Sweeney	Whitener
Schisler	Talcott	Whitten
Schmidhauser	Taylor	Widnall
Schneebeli	Teague, Calif.	Wolf
Schweiker	Tenzer	Wright
Secret	Thomas	Wyatt
Selden	Thompson, N.J.	Yates
Senner	Thompson, Tex.	Young
Shipley	Thomson, Wis.	Younger
Shriver	Todd	Zablocki
Sickles	Trimble	
Sikes	Tuck	

NAYS—10

Brock	Gross	Walker, Miss.
Curtis	Hall	Wylder
Davis, Wis.	Jonas	
Goodell	Laird	

NOT VOTING—43

Abbitt	Hansen, Idaho	Powell
Baring	Hébert	Resnick
Boggs	Hosmer	Roncalio
Bolling	Krebs	Rooney, N.Y.
Carter	Leggett	Scott
Celler	Long, Md.	Teague, Tex.
Collier	MacGregor	Toll
Colmer	Martin, Mass.	Tupper
Corbett	Mathias	Vivian
Corman	Michel	Williams
Edwards, La.	Morrison	Willis
Ellsworth	Moss	Wilson, Bob
Fogarty	Murray	Wilson,
Gallagher	Nix	Charles H.
Hagan, Ga.	Pepper	

So the conference report was agreed to.

The Clerk announced the following pairs:

Mr. Rooney of New York with Mr. Corbett.
Mr. Boggs with Mr. Martin of Massachusetts.

Mr. Hébert with Mr. Bob Wilson.
Mr. Krebs with Mr. Collier.
Mr. Fogarty with Mr. Michel.
Mr. Morrison with Mr. Carter.
Mr. Toll with Mr. Ellsworth.
Mr. Teague of Texas with Mr. Hansen of Idaho.

Mr. Charles H. Wilson with Mr. Hosmer.
Mr. Celler with Mr. Mathias.
Mr. Colmer with Mr. Tupper.
Mr. Williams with Mr. MacGregor.
Mr. Corman with Mr. Scott.
Mr. Nix with Mr. Baring.
Mr. Abbitt with Mr. Gallagher.
Mr. Resnick with Mr. Willis.
Mr. Vivian with Mr. Powell.
Mr. Roncalio with Mr. Long of Maryland.
Mr. Leggett with Mr. Edwards of Louisiana.
Mr. Hagan of Georgia with Mr. Moss.
Mr. Pepper with Mr. Murray.

The result of the vote was announced as above recorded.

The doors were opened.

A motion to reconsider was laid on the table.

The SPEAKER pro tempore (Mr. ALBERT). The Clerk will report the amendment in disagreement.

The Clerk read as follows:

Senate amendment Numbered 5: Page 7, line 2: "Provided further, That not to exceed \$918,000 shall be for assistance to the Tularosa, New Mexico, School District No. 4 for

construction of junior high and high school facilities, and to the Maddock, North Dakota, Public School District No. 9 for construction of a public high school."

Mr. DENTON. Mr. Speaker, I offer a motion.

The Clerk read as follows:

Mr. DENTON moves that the House recede from its disagreement to the amendment of the Senate numbered 5 and concur therein with an amendment, as follows: In lieu of the matter proposed, insert the following: "Provided further, That not to exceed \$468,000 shall be for assistance to the Maddock, North Dakota, Public School District No. 9 for construction of a public high school".

The motion was agreed to.

A motion to reconsider the vote by which action was taken on the motion was laid on the table.

GENERAL LEAVE TO EXTEND

Mr. DENTON. Mr. Speaker, I ask unanimous consent that all Members may have 5 days in which to revise and extend their remarks on the conference report.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Indiana?

There was no objection.

(Mr. DENTON asked and was given permission to revise and extend his remarks.)

PARTICIPATION SALES ACT OF 1966

Mr. PATMAN. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

The SPEAKER pro tempore (Mr. ALBERT). The question is on the motion offered by the gentleman from Texas.

The motion was agreed to.

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill H.R. 14544, with Mr. KEOGH in the chair.

The Clerk read the title of the bill.

The CHAIRMAN. When the Committee rose on yesterday, the Clerk had read through section 1, ending on line 4, page 1 of the bill.

If there are no amendments to the section, the Clerk will read.

The Clerk read as follows:

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

(1) by inserting "(1)" immediately following "(c)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking out the words "offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency" in the first sentence thereof and by inserting "and other types of

securities, including any instrument community known as a security, hereinafter in this subsection called 'obligations,' in which the United States or any executive department, agency,";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission."; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following:

"(2) Notwithstanding any other provision of law, the head of any executive department, agency, or instrumentality of the United States, hereinafter in this subsection called the 'trustor', is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, may guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. Notwithstanding any other provision of law, the Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust: *Provided*, That the trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(3) If any trustor shall guarantee to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated

funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(4) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that aggregate receipts from obligations subject to the related trust are or may become insufficient in amount to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors): *Provided*, That no such beneficial interests or participations shall be issued in relation to any obligations unless the trustee determines there is a reasonable probability there will not be an insufficiency as aforesaid, or unless the amounts issued are within aggregate principal amounts authorized in advance in appropriation Acts, and it shall be in order to include provisions authorizing such issuance in an appropriation Act. Whenever such an aggregate principal amount is so authorized, there shall be established on the books of the Treasury as indefinite appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests are participations, and such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

Mr. PATMAN (during reading the bill). Mr. Chairman, I ask unanimous consent that further reading of this section, down to page 7, line 7, be dispensed with, with the understanding that it will be subject to amendment at any point and also subject to any points of order.

The CHAIRMAN. Is there objection to the request of the gentleman from Texas?

Mr. JONAS. Mr. Chairman, reserving the right to object, and I shall not object, because the gentleman from Texas [Mr. PATMAN] made the proposition that points of order would be reserved.

Mr. Chairman, I have several points of order. I would like to have it understood that I shall have an opportunity to present these points of order at the appropriate time, which should be right now, or as soon as this unanimous-consent request is put, I would assume, because of the points of order apply to that part of the bill which the gentleman under his unanimous-consent request would dispense with reading.

The CHAIRMAN. The Chair will state to the gentleman from North Carolina that if the request of the gentleman from Texas is granted, it will be in order for the gentleman to offer any points of order.

Is there objection to the request of the gentleman from Texas?

There was no objection.

Mr. JONAS. Mr. Chairman, a point of order.

The CHAIRMAN. The gentleman will state the point of order.

Mr. JONAS. Mr. Chairman, I make a point of order against the language appearing on page 4, line 22, beginning with the word "and", which language is as follows: "and for these purposes may use any appropriated funds or other amounts available to him for the general

purposes or programs to which the obligations subjected to the trust are related."

Mr. Chairman, I make the point of order against this language in the bill on the ground that it violates clause 4, rule XXI, of the rules of the House of Representatives, which requires that bills making appropriations may not originate in committees other than the Committee on Appropriations.

The CHAIRMAN. Does the gentleman from Texas desire to be heard on the point of order?

Mr. PATMAN. Mr. Chairman, we concede the point of order.

The CHAIRMAN. The Chair sustains the point of order.

Mr. JONAS. Mr. Chairman, I make a point of order against the language appearing on page 5, line 5, beginning with the word "he" and continuing through lines 5, 6, 7, and 8 to the word "related," which language is as follows: "he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related."

Mr. Chairman, I make the point of order against this language on the ground that it violates clause 4, rule XXI of the House of Representatives.

Mr. PATMAN. Mr. Chairman, I wonder if the gentleman from North Carolina has added some language which he does not really intend to include in his point of order? As I understand, the gentleman intended to make a point of order against the language on page 5, line 5, starting with the word "by" down to and including the word "related" on line 8. In other words, as I understand the gentleman intends to make a point of order against the language reading as follows: "by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related."

Mr. JONAS. Mr. Chairman, the gentleman from Texas is correct and it was my purpose to have the point of order lie against the language on page 5, line 5, beginning with the word "by" down to and including the word "related" on line 8.

As I said, Mr. Chairman, I make the point of order against this language on the ground that it violates clause 4, rule XXI, of the House of Representatives.

Mr. PATMAN. Mr. Chairman, I concede the point of order.

The CHAIRMAN. The Chair sustains the point of order.

Mr. PATMAN. Mr. Chairman, I ask unanimous consent on page 4, line 22, to strike out the comma after the word "instrument" and insert a period, and on page 5, line 5, after the word "guaranty" to insert a period, in order that the bill read correctly.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

The CHAIRMAN. The Clerk will report the first committee amendment.

The Clerk read as follows:

Committee amendment: On page 3, line 3 strike out "Notwithstanding any other provision of law," and insert: "Subject to the limitations provided in paragraph (4) of this subsection,"

The committee amendment was agreed to.

Mr. JONAS. Mr. Chairman, a parliamentary inquiry.

The CHAIRMAN. The gentleman will state the parliamentary inquiry.

Mr. JONAS. Mr. Chairman, I have a point of order against the language to be amended by the committee amendment. I would not insist on the point of order if I knew the committee amendment would be adopted.

Should the committee amendment be rejected, I inquire of the Chair if I then might be able to lodge my point of order against the language stricken by the amendment.

The CHAIRMAN. The Chair will state to the gentleman from North Carolina that the Chair will undertake to protect the gentleman's right to raise points of order under clause 4 of rule XXI at any time during the consideration of this section of the bill whether the committee amendments are adopted or rejected.

The Clerk will report the next committee amendment.

The Clerk read as follows:

On page 3, line 9, strike the word "may" and insert "shall".

The committee amendment was agreed to.

The CHAIRMAN. The Clerk will report the next committee amendment.

The Clerk read as follows:

On page 3, line 18, strike the words "Notwithstanding any other provision of law, the" and insert "The".

The committee amendment was agreed to.

The CHAIRMAN. The Clerk will report the next committee amendment.

The Clerk read as follows:

On page 3, line 22, after the word "trust" strike the colon and the words "Provided, That the" and insert a period and the word "The".

The committee amendment was agreed to.

The CHAIRMAN. The Clerk will report the next committee amendment.

The Clerk read as follows:

On page 5, line 1, strike out "If" and insert "When".

The committee amendment was agreed to.

The CHAIRMAN. The Clerk will report the next committee amendment.

The Clerk read as follows:

On page 5, line 1, strike out "shall guarantee" and insert "guarantees".

The committee amendment was agreed to.

The CHAIRMAN. The Clerk will report the next committee amendment.

The Clerk read as follows:

On page 5, line 9, strike out section (4) and insert:

"(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any

such authorization shall remain available until used.

"(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). Whenever the issuance of an aggregate principal amount is authorized pursuant to paragraph (4) of this subsection, such an authorization in an appropriation act shall establish on the books of the Treasury as appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

Mr. JONAS. Mr. Chairman, a point of order.

The CHAIRMAN. The gentleman from North Carolina will state the point of order.

Mr. JONAS. Mr. Chairman, I make a point of order against the language on page 6 beginning with the word "Whenever" on line 22 and running down through the remainder of page 6 to and including the word "instrument" on page 7, line 6. The point of order is based upon my contention that this language violates the provisions of clause 4 of rule XXI of the House of Representatives.

The CHAIRMAN. Does the gentleman from Texas desire to be heard on the point of order?

Mr. PATMAN. Yes. I have a substitute amendment, and I hope it will be acceptable.

The CHAIRMAN. The Chair will state to the gentleman from Texas that we are under the obligation of disposing of the point of order.

Mr. JONAS. Mr. Chairman, will the gentleman from Texas yield?

Mr. PATMAN. I yield.

Mr. JONAS. Does the gentleman have an amendment to offer?

Mr. PATMAN. Yes, I wish to propose an amendment.

Mr. JONAS. With the permission of the Chair, I would like to discuss the amendment with the gentleman from Texas. I would first inquire who has the floor.

The CHAIRMAN. There is pending the point of order raised by the gentleman from North Carolina. The Chair has invited the gentleman from Texas to be heard on the point of order. The Chair will inquire as to whether the gentleman from North Carolina will reserve his point of order so that the substitute language can be offered by the gentleman from Texas.

Mr. JONAS. Mr. Chairman, I reserve the point of order to permit the gentleman from Texas to discuss the question. But I would like to discuss it then myself.

AMENDMENT OFFERED BY MR. PATMAN

Mr. PATMAN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. PATMAN to the committee amendment: Page 6, line 22, strike the sentence beginning on line 22 "Whenever the issuance of" through and including page 7, line 4 "beneficial interests or participations." and insert the following: "There are authorized to be appropriated without fiscal year limitation such sums as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (4) of this subsection."

The CHAIRMAN. The gentleman from Texas is recognized for 5 minutes in support of his amendment.

Mr. PATMAN. Mr. Chairman, as I understand the point of order that the gentleman is making, he is making it because he is assuming that this is an appropriation. That is not intended at all. This is intended as an authorization only. That is the reason we cannot concede the point of order.

Under the circumstances, I hope the gentleman will agree to accept this amendment, which has been offered, which I think makes it very plain, and not insist upon his point of order.

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman from North Carolina.

Mr. JONAS. Mr. Chairman, in the colloquy yesterday on the floor I did make that point, that this language to which I object would turn the Appropriations Committee into an authorizing committee, and would permit the Committee on Banking and Currency, and the trust instrument created by this language, to do the appropriating.

I stated then that I objected because of that language: I appreciate the effort on the part of the gentleman from Texas, the distinguished chairman of the Banking and Currency Committee, to meet the objections raised in the colloquies yesterday.

So far as that particular point is concerned, I am satisfied. However, I would ask the gentleman from Texas why he did not include the language beginning with the word "such" on line 4 on page 7, and running through the word "instrument," because that goes to the heart of one of the objections. It seems to me it gives the trust instrument, prepared by somebody outside the Congress, too much authority over what shall transpire. This is in derogation of the rights of the Appropriations Committee, as well as the House of Representatives.

I would ask the gentleman if he would not include the striking of that language?

Mr. PATMAN. I do not think we need to strike those lines to carry out the gentleman's intention, the way we understand it. Of course, we are trying to oblige the gentleman as much as possible. We wish to leave that language:

Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument.

In other words, that will go immediately after the amendment, if the amendment is adopted.

Mr. JONAS. I understand. But to what appropriations is reference made here on line 5?

Mr. PATMAN. To appropriations that are made by the Appropriations Committee.

Mr. JONAS. By the amendment that was offered?

Mr. PATMAN. Yes, sir.

Mr. JONAS. That takes care of that point.

Mr. GERALD R. FORD. Mr. Chairman, will the gentleman yield for a question?

Mr. PATMAN. Yes, sir; I yield to the gentleman from Michigan.

Mr. GERALD R. FORD. Mr. Chairman, I believe the point of order made by the gentleman from North Carolina is a valid one, and sustainable. On the other hand, I think the amendment offered by the gentleman from Texas is helpful in clarifying the position that was made yesterday by the gentleman from North Carolina and others on the floor.

Let me ask the distinguished chairman of the Committee on Banking and Currency this question: Will he assure the Committee and the House that when this bill, with these amendments, and particularly this amendment, goes to conference, he will stand forthrightly against any abdication of this amendment which he is offering at this time?

Mr. PATMAN. We will stand for the House bill as passed, which, of course, I believe the gentleman wants us to do.

Mr. GERALD R. FORD. You will give us here today your personal assurance that you will fight at the conference and on the floor against any change in this amendment language which you are offering at this point?

Mr. PATMAN. Of course, if the conferees should overrule me, I could not help that, but I will certainly fight in the conference for the position maintained by the gentleman from North Carolina, and by the distinguished minority leader, and the House in its action on this bill.

Mr. GERALD R. FORD. May I ask the distinguished gentleman this question: Would the gentleman refuse to sign the conference report if this language, which he is offering at this point, is not included?

Mr. PATMAN. I think the gentleman is asking too much, because there would not be a free conference that way. A conference is supposed to be a free conference. Otherwise, the conferees cannot work out the differences between the House and the Senate. We cannot go that far and have a free conference, I respectfully submit to the gentleman.

If there are instructions from the House, which can be made at the proper time, of course the House conferees would be required to respect that mandate from the House of Representatives.

Mr. GERALD R. FORD. The gentleman from Texas is offering this amendment, and it is sponsored by him.

Mr. PATMAN. Yes, sir.

Mr. GERALD R. FORD. We assume that the Committee of the Whole today will follow the gentleman's leadership on this point. The gentleman has told us that in the conference he will fight to maintain this particular provision. Is that correct?

Mr. PATMAN. Yes, sir; that is correct.

Mr. JONAS. Mr. Chairman, will the gentleman from Texas yield?

Mr. PATMAN. I yield to the gentleman from North Carolina.

Mr. JONAS. I believe it would help the conferees, if the amendment is adopted in the Committee of the Whole today—and I shall vote for it—to have a separate vote on this amendment in the House. Would that not strengthen the hands of the House conferees?

Mr. PATMAN. We do not need to have our hands strengthened. We are for it, too, as the gentleman is. We will do everything in our power.

Mr. JONAS. Mr. Chairman, a parliamentary inquiry.

The CHAIRMAN. The gentleman will state his parliamentary inquiry.

Mr. JONAS. In case the bill agreed on in the conference should delete this amending language, and the bill which came back to the House contained the objectionable language, against which the point of order was lodged, could a point of order be made against the conference report to strike that language?

The CHAIRMAN. The present occupant of the chair would not assume to undertake to suggest what would be done by the Speaker in that event.

Mr. JONAS. That would be a matter for the Speaker to decide.

The CHAIRMAN. The gentleman is correct.

Mr. JONAS. I recognize that the Chairman of the Committee of the Whole cannot pass on it, but it does not hurt to try to get a ruling.

Mr. PATMAN. Mr. Chairman, this will clarify what we had in mind all the time. We are not against the gentleman's suggestion; we are for it. We will do everything in our power to maintain that position. The amendment is offered in good faith.

Mr. WIDNALL. Mr. Chairman, I move to strike the last word.

As I understand the situation now, if we go to conference with this amendment included, we are going to stay with this amendment right through the conference.

Mr. PATMAN. Yes.

Mr. WIDNALL. I just want to be sure about this, because the gentleman has just stated that this is what we intended all the time, yet before the Rules Committee there was a request to waive points of order. This matter could not have been brought up except for what the Rules Committee did, and the bill would have remained exactly as written.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Texas.

Mr. PATMAN. There is a difference in interpretation. We never did intend this as an appropriation; not at all. It is an authorization.

It depends upon the interpretation one places on it. The gentleman from North Carolina placed the interpretation that it was an appropriation. We placed the interpretation that it was only an authorization.

Mr. WIDNALL. But the gentleman now recognizes the fact that there is

complete confusion about it, at least in the minds of a great many Members of Congress, and is doing this to tell everyone exactly what is meant by this—the fact that this is not trying to go around the appropriations process.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Texas.

Mr. PATMAN. The fact is that there was an interpretation by responsible Members of this House—and they are all responsible—to the effect that it was an appropriation. In order to clarify that and to make doubly sure that it will always be considered only an authorization, this is to be approved. It is for that reason. It is a clarification.

Mr. WIDNALL. Mr. Chairman, I yield back the remainder of my time.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Texas [Mr. PATMAN] to the committee amendment.

The amendment to the committee amendment was agreed to.

The CHAIRMAN. Are there further amendments to be offered to the committee amendment? If not, the question is on the committee amendment, as amended.

The committee amendment, as amended, was agreed to.

AMENDMENT OFFERED BY MR. PATMAN

Mr. PATMAN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. PATMAN: Page 3, strike lines 3 through 6 and insert:

"(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as provided in this subsection by each of the following departments or agencies:

"(A) The Farmers Home Administration of the Department of Agriculture.

"(B) The Office of Education of the Department of Health, Education, and Welfare, but only with respect to loans for construction of academic facilities.

"(C) The Department of Housing and Urban Development, except that such authority may not be used with respect to secondary market operations of the Federal National Mortgage Association.

"(D) The Veterans' Administration.

"(E) The Export-Import Bank.

"(F) The Small Business Administration.

The head of each such department or agency, hereinafter in this

Mr. PATMAN. In substance, this amendment specifically names the departments and agencies that would be affected by the Participation Sales Act of 1966. While the bill as originally introduced would have potentially permitted by its language the sale of beneficial interests or participation certificates in Government obligations totaling \$33 billion, it was never contemplated that such sales would, in fact, take place. However, the bill was criticized on the grounds that the plain language of the bill would permit sales in that gross amount. Accordingly, the amendment being offered provides for an express limitation on the agencies to be affected.

Those departments or agencies are:

First, the Farmers Home Administration of the Department of Agriculture;

Second, loans for construction of academic facilities from the Office of Education of HEW;

Third, Department of Housing and Urban Development;

Fourth, the Veterans' Administration; Fifth, the Export-Import Bank; and Sixth, the Small Business Administration.

It is estimated that the outstanding loans and other financial assets owned by the named Federal agencies and departments for which participation sales would be authorized under the proposed amendment total \$10.9 billion. However, I hasten to assure the House that it is not expected that the total amount of these loans will end up in participation pools in fiscal year 1967. In fact, it is expected that only \$2.85 billion of additional participation certificates will be sold in fiscal 1967 under the provisions of the proposed amendment. These facts are unequivocally set forth on page 426 of the fiscal 1967 budget. It should be noted that under existing authority, sales of participation for fiscal 1967 amount to \$1.35 billion in loans held by FNMA, VA, and the Export-Import Bank. Thus, the total of participation sales proposed in the 1967 budget including participation sales authorized by this amendment will amount to only \$4.2 billion.

Mr. Chairman, I strongly urge the adoption of the proposed amendment, as it provides specific limitations on both the quality and the quantity of financial assets that may be sold under the Participation Sales Act of 1966.

Mr. Chairman, I hope the amendment will be adopted.

Mr. WIDNALL. Mr. Chairman, I rise in support of the amendment.

Mr. Chairman, for the record, I would like to say that I was preparing to offer a similar amendment on behalf of the minority.

Mr. Chairman, the officials of the Treasury Department informed me that it was not intended that the secondary market operations of FNMA be included in any trust pooling arrangements. They, therefore, accept the position that is embodied in this amendment.

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Missouri.

Mr. CURTIS. I want to find out about this, and also, generally, under the authorization here, could these securities from these various agencies be mingled in the same pool, or does this require they be separated into their own pool for participation sales?

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Texas.

Mr. PATMAN. That is a good question, I will say to the gentleman from Missouri. We must allow the administrator or the manager of these funds to have discretion.

Mr. CURTIS. Discretion to commingle, if they so desire?

Mr. PATMAN. If the gentleman will yield further, yes, they will be privileged

to do whatever is best in the public interest. If it is better to have a single issue in the pool, FNMA would have the privilege of doing so. If they want to commingle, then they would have the privilege of doing so. In other words, we are trusting their judgment and discretion to do what is best in the particular case, in the public interest.

Mr. CURTIS. But this is completely discretionary—they could keep them singly, or they could commingle them?

Mr. PATMAN. If the gentleman will yield further; that is correct, yes.

Mr. CURTIS. I thank the gentleman.

AMENDMENT OFFERED BY MR. POAGE

Mr. POAGE. Mr. Chairman, I offer an amendment to the amendment.

The Clerk read as follows:

Amendment offered by Mr. POAGE to the amendment offered by Mr. PATMAN: Amend section 302(c)(2)(A) by striking the period in subsection (A) and substituting a comma therefor and adding the following: "but only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949, nor with respect to loans for nonfarm recreational development."

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. POAGE. Yes; I yield to the gentleman from Texas.

Mr. PATMAN. The gentleman's amendment is acceptable to the committee.

We discussed this before the Committee on Rules, as the gentleman from Texas is aware, and we had his able assistance in arriving at the language to be used. Therefore, we are very glad, indeed, to accept the gentleman's amendment, as being designed to carry out the real intent of the committee.

Mr. POAGE. I appreciate what the gentleman from Texas has done, and I would like to suggest that I feel the committee has done a good job in offering the amendment that has just been offered by the gentleman from Texas. But the gentleman did not go quite as far as I would like to see the matter go. This amendment extends it to the insured loans of the Farm Credit Administration.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield for a point of order?

Mr. POAGE. I yield to the gentleman from New Jersey.

Mr. WIDNALL. Mr. Chairman, I believe that the language that is now being suggested by the gentleman is already in the amendment that was offered by the gentleman from Texas [Mr. PATMAN] which I said I agreed to on behalf of the minority.

Mr. POAGE. No; if the gentleman will look at it, the amendment which the gentleman from Texas [Mr. PATMAN] offered, reads: "The Farmers Home Administration of the Department of Agriculture." That is the end of the reference to the Department of Agriculture.

The amendment which I offered to the Patman amendment picks up right there, strikes that period, and adds the following language, "but only with respect."

Mr. Chairman, the amendment that I have offered picks up at that point and adds the language, to make it read, that the Farmers Home Administration of the Department of Agriculture, "but only with respect to operating loans, direct farmownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949."

Mr. WIDNALL. Mr. Chairman, may I be heard on the point of order?

The CHAIRMAN. The gentleman has not stated his point of order.

Mr. WIDNALL. Mr. Chairman, this language is already included in the bill under the amendment offered by the gentleman from Texas [Mr. PATMAN].

I have in my hand the amendment offered by the gentleman from Texas [Mr. PATMAN] to H.R. 14544 and it includes the language which is presently being read.

Mr. Chairman, I withdraw the point that I am making as I have been informed just now that the language of the amendment which was offered and sent to the Clerk's desk as an amendment is different from the language in the copy that I have in my hand, which I understood was the amendment being offered by the gentleman from Texas [Mr. PATMAN].

Mr. PATMAN. Mr. Chairman, I think the gentleman from New Jersey will find that the copy that was given to him includes the Poage amendment and it was indicated by a pencil mark to show the proper place for the Poage amendment. I believe that is the way it is.

But, in any event, Mr. Chairman, I assure the gentleman from New Jersey that the amendment offered by the gentleman from Texas [Mr. POAGE] I think is in order at this point because we do not have in the amendment I offered the language that the gentleman refers to, and I think the gentleman from New Jersey is in favor of this.

The CHAIRMAN. The time of the gentleman from Texas [Mr. POAGE] has expired.

Mr. POAGE. Mr. Chairman, I ask unanimous consent that I may be allowed to proceed for 5 minutes to speak on my amendment.

Mr. CURTIS. Mr. Chairman, if the gentleman will allow me to proceed, I will get caught again in the same way if the gentleman will not allow me to proceed.

The CHAIRMAN. Is there objection to the request of the gentleman from Texas [Mr. POAGE] to proceed for 5 additional minutes.

Mr. CURTIS. I will object then.

The CHAIRMAN. Objection is heard.

Mr. CURTIS. Mr. Chairman—

The CHAIRMAN. For what purpose does the gentleman from Missouri [Mr. CURTIS] rise?

Mr. CURTIS. Mr. Chairman, I move to strike out the last word.

The CHAIRMAN. The gentleman from Missouri is recognized for 5 minutes.

Mr. CURTIS. Mr. Chairman, I want to yield to the gentleman from Texas. The point I was hoping that the gentle-

man would develop, and I think he probably was going to, and that is the only reason I asked him to yield, was the reason why he wanted to exclude and does exclude in his amendment, certain of these securities under this particular agency. I now yield to the gentleman from Texas and he can continue on.

Mr. POAGE. I thank the gentleman.

Mr. Chairman, the reason for excluding these securities is that these are insured loans. They do not belong to the Government. We leave the direct loans eligible for investment by the fund. But the insured loans—the Farmers Home Administration makes \$450 million of insured loans for a great many purposes. The operating loans are all brought under the terms of this bill. The other insured, or guaranteed loans are not brought under the terms of this bill. They may be direct land purchase loans. They may be water facility loans. They can be sewerage facility loans. But the Farmers Home Administration does not make them directly from Government funds. Indeed, the Government does not actually make the loans involved in the exemption of this amendment. They are actually loans made by local or private lending agencies, with a Farmers Home guarantee of payment.

For instance, the first sewerage loan made in the United States, the first of the year, was made in the little community of Chilton, Tex. The loan was for \$70,000 but the loan was made by the local bank and the Farmers Home Administration simply insured it. Frankly, we do not know of any way it could be sold or used as the basis of any certificate of participation, but I have seen strange things done. All we are trying to do is make sure that these securities go into this fund.

Mr. CURTIS. I see—in other words, these are securities actually sold to the private sector in the beginning.

Mr. POAGE. That is right.

Mr. CURTIS. I understand.

Mr. POAGE. That is right, and our purpose is to try to protect the friendly situation which presently exists between the local communities and the local lending agencies because we think it is good—we think it is good that the local bank makes this loan. We think it is much better than this loan should be carried off up to New York and made up there.

Mr. CURTIS. I thank the gentleman.

Let me say this. This points up though the point is being made throughout the debate of the failure of the Committee on Banking and Currency to do its homework in this area.

This business of making these changes on the floor of the House, I submit, is not in the best interests of good legislation. I do think this is a good amendment. It sounds like it, at any rate.

Mr. FARNUM. Mr. Chairman, I move to strike the last word.

The CHAIRMAN. The gentleman from Michigan is recognized for 5 minutes.

(Mr. FARNUM asked and was given permission to revise and extend his remarks at this point in the Record.)

Mr. FARNUM. Mr. Chairman, I want

to address myself to three criticisms of the participation sales legislation and program which have been voiced on this floor.

The first of these criticisms is that the budget treatment of receipts from participation sales amounts to gimmickry. Let us consider this charge carefully.

A Government loan to an individual, or a business, or an institution is a liability—an obligation to pay—on the part of the borrower and an asset for the Government. The borrower is obligated to pay back every cent he borrows from the Government, plus interest. Yet money lent under one of our Federal credit programs is treated as an expenditure. We say the administration has "spent" the money.

Consequently, we call the repayment of a loan a net reduction in expenditure—a "negative expenditure." We could just as well call it revenue. But we have our accounting system, with its set of rules, and it makes as good sense as any other method. The important thing is that the net impact on the deficit is the same whether we call a loan repayment a receipt or a negative expenditure.

Since the 1950's, under the Eisenhower administration, sales of assets have been treated in the same way as repayment of loans—they have been counted as negative expenditures. Hence, receipts from the sale of participations are now—and will continue to be—treated as negative expenditures.

This is a perfectly straight-forward way to treat these transactions in the budget. It is an accounting technique that focuses attention on the net expenditures entailed in a program.

Those who level the charge of budget gimmickry should realize that this procedure is neither something new with this bill nor something new with this administration. It is the conventional budget treatment given the entire program of asset sales. An argument against the method of accounting used in handling asset sales in the Federal budget is less an argument against this bill than against the entire asset sales program already authorized by Congress.

But, say the critics—and this is the second criticism—the assets are not sold. The buyers do not get title to the assets. In the words of the minority report of the Committee on Banking and Currency, all the buyer gets is a piece of the action. Does not this, the critics ask, demand different treatment?

Title in these assets passes in trust to the Federal National Mortgage Association, and the private lender gets an undivided interest in the pool of assets. This is not an unusual circumstance. It does not differ in any substantial degree from the situation of an investor who buys stock in a corporation. The stockholder has ownership, but he does not have a claim to any specific assets of the corporation.

The agencies will continue to service their loans. Many of the loans were made originally by the Government simply because the borrower did not have access to private credit, due to size, loca-

tion, or lack of established credit standing.

These factors call for continued agency servicing. But this situation differs in no real sense from the operations of a mortgage broker who originates a loan and then sells it to an investor but continues to perform the servicing on behalf of the investor.

In fact, the situation duplicates a procedure sometimes used in the private market. Some mortgage brokers are themselves using the pool participation technique as a means of developing interest in mortgage financing among investors who do not have the facilities to handle mortgages directly.

Neither the possession of the title to the assets nor the maturities of the participation certificates change the fact that the borrowers are being financed by private lenders and not by the Government.

So much for the substance of this criticism. But let me consider the mechanics of the point, too.

Would it make any sense or improve our budget handling of these transactions in any way to go on treating loans as expenditures, continue to call repayments of the loans negative expenditures, but call receipts from participation sales something else—revenue, perhaps? We would then have two inputs for the same receipts—two systems going side by side. Would we then have to have another concept—perhaps called a negative receipt—to offset the loan repayments against the participation sales receipts?

With a budget already so complicated that few people outside these Halls and the agencies understand it, would we improve anything by making it still more complicated and incomprehensible? I cannot believe it.

Now for the third criticism. The opposition points out that the yield on participations will be higher than on Treasury borrowings. The participation sales technique will cost the Government more.

True as far as it goes. Participation certificates will cost approximately three-eighths of 1 percent more in their yield than Treasuries. The administration has never tried to obscure this fact.

But is this an argument for greater Treasury borrowing? We will soon face on this floor the annual increase in the public debt limits. Am I to understand that those who are now opposing this participation sales legislation will come forward later this month with proposals to increase the debt limit? I cannot believe that, either.

There are several points to be made on this criticism. First, Treasury borrowing is not an acceptable alternative in order to reduce the portfolio of direct loans the Government holds which is now tying up \$33 billion of the taxpayers' money. But the criticism is relevant only if greater Treasury borrowing is an acceptable alternative. Otherwise we are arguing against a strawman.

Second, Treasury borrowing would not further the objective of substituting private for public credit. That is what we are trying to do—to call on the ready resources of the private market and reduce

the part which public credit must play in the Federal lending programs.

Third, the modest additional cost of using the participation sales technique is the cost of freeing billions of dollars which are now immobilized in the Government portfolio. Fourth, as participation certificates gain wider and wider acceptance, we expect that the narrow differential of approximately three-eighths of a percent will narrow still further and that the rate on participations will approach still closer to the rate on Treasury securities.

Finally, there is a very telling point that has not been stressed in this House—and I would like to do so now.

Direct sales of loans by Fannie May and the Veterans' Administration in fiscal years 1965 and 1966 have been at an average interest rate of about $5\frac{1}{4}$ percent throughout the period. After adjusting for the cost to the purchaser of servicing the loans—which varies substantially, depending upon the amount of each loan, but can be estimated as roughly in the range of one-fourth to one-half of 1 percent—the net yield to the investor would be in the range from $4\frac{3}{4}$ to 5 percent.

The average interest yield on Federal National Mortgage Association participations was 4.3 percent on the November 1, 1964, issue; 4.5 percent on July 1, 1965; 4.7 percent on December 1, 1965; and 5.4 on April 4, 1966. Since neither the Federal National Mortgage Association nor the Veterans' Administration has been selling significant amounts on a direct basis in the calendar year 1966, there is no basis for a meaningful comparison between the interest rate on direct sales and the April 4, 1966, rate.

Thus, the net yield to investors of $4\frac{3}{4}$ to 5 percent on direct sales should be compared with an average yield of about $4\frac{1}{2}$ percent on the Federal National Mortgage Association's first three participation issues. Accordingly, it appears that direct sales are more costly than participation sales by an amount ranging from one-fourth to one-half of 1 percent.

In the Export-Import Bank program, the volume of direct sales on a recourse basis in recent years has not been significant, relative to the volume of Export-Import Bank participation sales. Direct sales by Export-Import Bank on a guaranteed basis in calendar 1966 to date, for example, have totaled less than \$400,000, compared with Export-Import Bank's February participation sale of \$364 million.

In calendar 1964, however, there were \$24 million of direct sales during the year on a recourse basis. The weighted average rate was 5.18 percent. This compares with the interest rate of $4\frac{1}{2}$ percent on both issues of Export-Import Bank participations in calendar 1964 totaling \$822 million.

Thus, although the amount of direct sales in calendar 1964 was only about 3 percent of the volume of participation sales, it is clear that the interest rate on direct sales was significantly above the rate on participations.

Small Business Administration direct

sales experience provides a reasonable basis for comparison with participation sales because of the sales by SBA in March and April this year of \$110 million of debentures at interest yields of 5.65 percent and 5.75 percent. The 5.4-percent rate on the Federal National Mortgage Association's participation issue of April 4, 1966, was significantly below the rates on SBA's direct sales.

On the basis of this experience, it appears that participation certificates can be sold at interest rates roughly one-fourth to one-half of 1 percent below the rates required for direct sales.

That is the comparison we should be making. Comparison of participation sales yields with Treasury yields is simply not pertinent. But comparison of participation costs with direct sale costs is extremely relevant.

The asset sales program is established and has been carried forward by three administrations. Few if any of us would reverse the process in motion for more than a decade.

Of the alternatives we have for selling these assets, the participation sales technique is substantially the more economical. Experience proves that point.

I have seriously considered three of the arguments put forward by the opposition. I believe they were serious, reasoned criticisms, and I have tried to deal with them in the factual and reasonable fashion they deserve. I believe the facts show that the criticisms are not well taken. I urge, therefore, that we support the President's participation sales legislation.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Texas [Mr. POAGE] to the amendment offered by the gentleman from Texas [Mr. PATMAN].

The amendment to the amendment was agreed to.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Texas [Mr. PATMAN] as amended.

The amendment, as amended, was agreed to.

AMENDMENT OFFERED BY MR. PATMAN

Mr. PATMAN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. PATMAN: Page 3, line 20, strike "may" both times it appears and insert "shall".

The amendment was agreed to.

(Mr. PATMAN asked and was given permission to extend his remarks at this point in the RECORD.)

[Mr. PATMAN addressed the Committee. His remarks will appear hereafter in the Appendix.]

AMENDMENT OFFERED BY MR. BROCK

Mr. BROCK. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. Brock to the committee amendment: Page 6, line 13, strike "until used." and insert "only for the fiscal year for which it is granted and for the succeeding fiscal year."

Mr. BROCK. Mr. Chairman, this amendment would also, as in the case of the previous one, conform the House

bill to an amendment adopted by the Senate placing a 2-year limit on the time during which an Appropriation Committee authorization would remain available. It should be noted, of course, that this is not a 2-year limitation on the bill itself. The 2-year limitation applies solely to the agency pooling authorization given by the Appropriations Committee.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from Texas.

Mr. PATMAN. How would the proposed language change the language commencing at page 6, line 12, reading:

Any such authorization shall remain available until used.

How would it then read?

Mr. BROCK. My amendment would strike the words "until used" and insert "only for the fiscal year for which it is granted and for the succeeding fiscal year."

Mr. PATMAN. I think it is a good amendment. We will accept it.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Tennessee.

The amendment was agreed to.

AMENDMENT OFFERED BY MR. PATMAN

Mr. PATMAN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Page 3, line 20, strike "may" both times it appears and insert "shall".

The CHAIRMAN. The Chair will state that that amendment has already been adopted.

Mr. PATMAN. Then we will withdraw it for the present. I understood the reading of that in the beginning, but it was not in the bill, and I did not see how it was adopted. But if it was adopted, it suits us. I ask the Chair to check on that.

The CHAIRMAN. The Chair has checked, and will state to the gentleman from Texas that the two amendments are identical, the earlier one having been adopted without objection.

Mr. PATMAN. We apologize to the Chair. We just made a mistake on the amendment.

The CHAIRMAN. Does the gentleman from Texas have anything further?

Mr. PATMAN. Yes, Mr. Chairman. We have one other amendment in that section.

Mr. Chairman, I offer an amendment.

AMENDMENT OFFERED BY MR. PATMAN

The Clerk read as follows:

Amendment offered by Mr. PATMAN: Page 2, strike lines 6 through 15 and insert:

"(3) by striking out the words 'offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof' in the first sentence thereof and by inserting 'and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations,' in which any department or agency of the United States listed in section 302(c) (2) of this Act,'";

The CHAIRMAN. The gentleman from Texas is recognized.

Mr. WIDNALL. Mr. Chairman—

Mr. PATMAN. Mr. Chairman, does the gentleman from New Jersey [Mr. WIDNALL] wish me to yield?

Mr. WIDNALL. Mr. Chairman, I have an amendment at this point, a substitute for the amendment offered by the gentleman from Texas [Mr. PATMAN]. Is it in order for that to be discussed, first, at this time?

The CHAIRMAN. The gentleman from Texas has been recognized for 5 minutes in support of the amendment he offered. The gentleman from New Jersey will be privileged to offer a substitute a little later.

The gentleman from Texas is recognized.

Mr. PATMAN. This is really just a conforming amendment to the amendment that has already been adopted, that was amended by the Poage amendment, that spells out the agencies which are permitted to participate in this act. It is just a conforming amendment. I think it should be adopted for that reason.

SUBSTITUTE AMENDMENT OFFERED BY
MR. WIDNALL

Mr. WIDNALL. Mr. Chairman, I offer a substitute amendment to the amendment offered by the gentleman from Texas.

The Clerk read as follows:

Amendment offered by Mr. WIDNALL as a substitute for the amendment offered by Mr. PATMAN: Page 2, strike line 6 and all that follows down through line 15 and insert:

"(3) by striking 'obligations offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof' in the first sentence thereof and inserting 'mortgages or other types of obligations in which any department or agency of the United States listed in paragraph (2) of this subsection.'"

The CHAIRMAN. The gentleman from New Jersey is recognized for 5 minutes.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Texas.

Mr. PATMAN. Mr. Chairman, I understand what the gentleman is really undertaking to do is to strike out the word "security."

Mr. WIDNALL. Mr. Chairman, that is the intent. I would like to read into the RECORD the purpose of it.

Mr. PATMAN. May I say, if that is all that is intended, and that is what it does, we are willing to accept it.

Mr. WIDNALL. Mr. Chairman, I would like to read into the RECORD the purpose of this amendment.

I hope the chairman will withhold his acceptance at this point. This is a very short explanation.

Mr. Chairman, the amendment offered by the chairman would conform this section of the House bill to language adopted by the Senate which incorporates by reference the agencies eligible to pool loans as set forth in an amendment which will be offered to section 302(c) of the act.

The substitute I have offered likewise would make this change in the bill.

The substitute makes a further change in the amendment offered by the chairman in that it will rule out any possibility that these agencies pooling assets could pool "stock" as well as mortgages or obligations owned by them. The language relating to stocks which the substitute would strike from the bill appears on lines 11 to 14 with reference to types of assets that may be pooled. This language states "and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called obligations." That language is so broad that there can be no question but that it would also include stocks as well as obligations. My substitute amendment would rule out such possibility by changing that language to read that assets permitted for pooling will consist of only "mortgages or other types of obligations."

The language of the substitute amendment has the approval of the Treasury Department who informed me that it was never their intention to include stocks in assets that could be pooled.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Texas.

Mr. PATMAN. We are willing to accept the gentleman's interpretation.

Mr. WIDNALL. I thank the gentleman. Is the gentleman willing to accept the substitute?

Mr. PATMAN. And the substitute; yes.

Mr. POAGE. Mr. Chairman, I move to strike the last word.

In view of the fact that we got a little confused on the point of order a while ago, I lost all the time which I had to discuss the amendment which was adopted, and to which this amendment and the substitute now represents an addendum. I do want to take some time to get clearly in the RECORD the understanding of the agencies of Government in connection with the Farmers Home Administration.

To that end I should now like to read a letter dated May 3, addressed to me, which states:

DEAR BOB: Following our meeting of last week on the participation sale bill I have been in touch with Charles L. Schultze, the Director of the Budget, regarding the insured loan authority of the Farmers Home Administration.

I have been assured that the full \$450 million of insurance authority provided in Public Law 89-240 will be available each year to the Farmers Home Administration.

I am very pleased to be able to make this report to you.

Sincerely yours,

ORVILLE J. FREEMAN,
Secretary.

I also wish to read another letter bearing the same date, addressed to me, from the Director of the Bureau of the Budget:

DEAR MR. POAGE: Under Secretary Barr tells me that you are concerned not only with the implications of the Participation Sales Act of 1966 on the financing of various Farmers Home Administration programs, but also about the overall level of the FHA's insured real estate loan program.

With respect to the first matter, I believe I covered this in my letter to you of May 2. With respect to the second matter, let me

repeat to you the assurances which I gave Secretary Freeman orally that the Bureau of the Budget will place no obstacles in the way of the full use of the \$450 million insurance authority recently established by Public Law 89-240.

Sincerely,

CHARLES L. SCHULTZE,
Director.

Mr. Chairman, the point is, I want clearly established in the RECORD that those in charge both of the Department of Agriculture and the Bureau of the Budget recognize—and have committed themselves to it—that they will not hereafter object to the use of the full \$450 million of guaranteed loan authority which Congress authorized for the Farmers Home Administration.

Mr. HANNA. Mr. Chairman, will the gentleman yield?

Mr. POAGE. I yield to the gentleman from California.

Mr. HANNA. I believe the point the gentleman has made would strike awe in the hearts of all of us for the ability to misunderstand in this particular area.

The Government has two programs. One program is of insured loans. It has insured loans of a volume of about \$100 billion. In that loan program the Government does not get 1 cent of loan assets. It has nothing but a contingent liability. One could scarcely envision an opportunity to sell a participation of that contingent liability.

The Government has another portfolio of direct loans, out of which it does get loan assets. It could only sell participations out of those loan assets.

I think the gentleman by bringing this out has indicated there has been a misunderstanding between the position of the Government on its insured loans and the position of the Government on the other loans.

Mr. POAGE. That is exactly right, and we are trying to see that this misunderstanding does not continue. We are trying to make sure that there is no future misunderstanding as to the right of the Farmers Home Administration to use the authority which Congress gave the Farmers Home Administration.

The CHAIRMAN. The question is on the amendment offered by the gentleman from New Jersey [Mr. WIDNALL], to the amendment offered by the gentleman from Texas [Mr. PATMAN].

The amendment to the amendment was agreed to.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Texas as amended.

The amendment as amended was agreed to.

AMENDMENT OFFERED BY MR. FINO

Mr. FINO. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. FINO: Page 7, insert the following immediately after line 6:

"(6) Whenever any issue of beneficial interests or participations under this subsection is to be underwritten by any private firms, the Association shall award the contract on the basis of competitive bids."

Mr. FINO. Mr. Chairman, this amendment provides that when issues of participations are to be underwritten

by private firms, Fannie Mae shall be obliged to award the contracts on the basis of competitive bidding. Odd as it may seem, the bill as introduced does not provide for competitive bidding on the underwriting of participation issues. It leaves the door wide open for favoritism and windfalls.

I believe that no competitive bidding has ever been used by Fannie Mae to get underwriters. This is because Fannie Mae has a cozy arrangement going with four brokerage houses. Each of Fannie Mae's four issues of participations has been sold to this syndicate. Each time, a different one of the four brokerage houses appeared at the top of the list of four underwriters. As I said: This is a cozy little arrangement.

I regret to say that the participation sales program is a windfall for a bunch of "fat cats" from the top of its head to the tip of its toes. First it is a windfall for a fat cat syndicate of brokerage houses who will make about \$8 million in commissions from underwriting \$2.8 billion worth of participations. They have already made \$5 million in the past from underwriting \$1.6 billion worth of participations. Second, the whole participation scheme is a windfall for the fat cats who are going to be able to buy participation certificates and make 5½ percent a year just by clipping coupons.

If this is not a double-barreled windfall, I do not know what is. The amendment I am offering at this time would at least knock out one part of the windfall by junking the cozy little arrangement with the four "fat cat" investment houses in favor of competitive bidding.

If we have competitive bidding, I expect it will save the taxpayers a few dollars because competition to underwrite the issue will drive down underwriting costs from the present "cozy" level. I hope the Members of this House still care about the taxpayer. He is the man the President of the United States has said does not deserve the care and feeding given the fat cats.

I hope that the House will support this amendment to provide for competitive bidding by would-be underwriters. It seems only fair that the taxpayers and investment houses of America have this guarantee of fair play. I urge the adoption of my amendment.

Mr. PATMAN. Mr. Chairman, I rise in opposition to the amendment.

Mr. Chairman, I do not believe that we have had any charges of wrongdoing in connection with the sale of these securities through FNMA.

Further, Mr. Chairman, I will state that I believe competitive bidding should be allowed, and it is allowed under the bill as drawn. We should leave it to the managers and board of FNMA to sell whatever way they can to best protect the public interest.

Mr. Chairman, we must assume, until we have evidence to the contrary, that they are acting in the public interest, and have acted in the public interest in the past. And, unless we have positive proof and convincing proof to the contrary, I think we should continue to give them discretionary authority and then hold them responsible. If they make mis-

takes, we can do something about that. But there is no mistake that, as has been pointed out so far, and I believe this would definitely tie the hands of the people who have charge—I do not believe that Congress at this point should undertake any such restriction or limitation. I believe it would be against the public interest. It is for these people who are in charge of that responsibility to determine what is best in the public interest. If they want to do it by competitive bids, they have the authority under the existing law to do it by competitive bids. If they want to do it other ways, they have that power also.

If the gentleman's amendment is adopted, they will be restricted and restrained and be limited in their efforts to serve the public interest.

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman from New York.

Mr. FINO. First of all, I want to apprise the gentleman from Texas, that I made no charges against any of these four houses. My concern is to have all of them under this legislation have an opportunity to compete so that we have equal opportunity on these participation certificates.

Another point that I made was that it will, if adopted, bring down the cost, which will help the taxpayers.

Mr. PATMAN. In the public interest, though, I will state to the gentleman that the people in charge of FNMA are required under the law to do what is best in the public interest. If they believe competitive bidding in a particular case is best, they will do it—I am sure they will. But if there are other ways of doing it that will be better in serving the public interest, they should not be prohibited from following their best judgment and discretion in that regard.

Mr. Chairman, I hope the gentleman does not insist on this severe limitation upon their rights and privileges at a time when it is hard enough to deal with these people anyway. The fact that they have had certain brokers—they have not used the same one twice, as I understand it. That is something that is not unknown in financial circles. For instance, there are lots of cases where they use the same broker over and over again, in private business as well as in government, depending upon the best contract they can get, in the public interest.

Mr. FINO. Will the gentleman yield further?

Mr. PATMAN. I yield further to the gentleman from New York.

Mr. FINO. The gentleman has indicated that my amendment would limit and tie the hands of FNMA. Now, that is not actually true. What I am trying to do through this amendment is to expand the authority and the facilities of FNMA so they can reach out to all factors and facets of this industry in an effort to try to get competitive bids.

And, if the gentleman from Texas will yield further, insofar as saying that it is the responsibility of FNMA to handle this problem, it is also the responsibility of this Congress to make and to give direction and have in the law certain restrictions so that they do not go haywire and

give preference to one particular house. I am trying to get everyone into this act.

Mr. PATMAN. I have not heard of any one house complaining.

Mr. FINO. Why should the houses complain?

Mr. PATMAN. If there are no complaints, why act upon it? Upon what are we working? The gentleman is trying to put them in a straitjacket. The gentleman should not want to do that. Let them have discretion. No one has complained about this.

Mr. FINO. Mr. Chairman, will the gentleman yield further?

Mr. PATMAN. I yield further to the gentleman from New York.

Mr. FINO. When the gentleman from Texas says that no one company has complained, that is true, because we only gave them 3 hours in which to present their case and we never permitted nor allowed any of the witnesses to come before the committee to express their views in opposition.

Mr. PATMAN. The gentleman is mistaken about that. We had many witnesses who appeared before the committee and testified on related and supplementary legislation.

Mr. BROCK. Mr. Chairman—

The CHAIRMAN. For what purpose does the gentleman from Tennessee [Mr. Brock], a member of the committee, rise?

Mr. BROCK. Mr. Chairman, I move to strike out the last word.

The CHAIRMAN. The gentleman is recognized.

Mr. BROCK. Mr. Chairman, I want to point out to the chairman that we are not by this amendment trying to restrict anybody. I do not believe it is the duty of the Congress to assume integrity or good judgment on the part of any Federal agency. I think it is the duty of the Congress to meet its responsibility by imposing those needed restrictions which will insure that the duties and responsibilities of the Federal agencies involved here are properly carried out.

Mr. Chairman, I can see no possible justification for refusing to allow or to encourage and even to insist on competitive bidding.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman.

Mr. PATMAN. We have had this question up in the Joint Economic Committee for 20 years. This question always comes up. Some Members say we should be selling bonds and all Treasury issues at public auction. Other Members say that there should be competitive bids, and other such suggestions.

We have always come to the conclusion to my knowledge that we must give some discretion and some power to the administrators who administer the act expecting them to do what is in the public interest and not to restrict them to any one thing or a course of action. Then if they do not perform their duties well and faithfully, then the next time a bill like this comes up, we can consider a limitation. But since we have gone along so well over the years without really any objections in this respect, I do hope the gentleman will not insist on his amendment.

Mr. BROCK. I would point out to the gentleman that Fannie Mae has yet to permit competitive bidding on any of its participation sales. To date there have only been four brokerage houses participating and they have participated on a rotating basis.

I would like to point out further that the gentleman's own Joint Economic Committee issued a report I believe in March of this year in which his own committee spoke out against participation sales and the gentleman signed the report; is that not correct?

Mr. PATMAN. No, we did not come out against it. We criticized some aspects of it in the report. We wound up by saying that pension funds and trust funds should be allowed to participate in these participation sales and we did that, making a contribution to the success of the participation sales act.

Mr. BROCK. The point is that I can see no justification for refusing to insist that competitive bidding be allowed in this instance.

Mr. PATMAN. Well, if we had any complaints that would be a different matter. But I do not believe any Member has a complaint as to what is being done.

Mr. BROCK. There was no possibility of making a complaint because the Banking and Currency Committee majority refused to hear any additional witnesses, including those from the Mortgage Bankers Association.

Mr. PATMAN. But, of course, we know with all the telegrams that have been sent out and telephone calls that have been made.

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman.

Mr. FINO. I want to ask the gentleman from Texas [Mr. PATMAN], the chairman of our committee, this question. Would not competition in underwriting these issues drive down the costs of such underwriting? We are concerned here with the cost to the taxpayers.

Mr. PATMAN. Sometimes that is true.

Mr. FINO. Does the gentleman from Texas say that the answer to my question is that it is true that such competition would drive down the underwriting cost?

Mr. PATMAN. Sometimes it could be true—but not always. You see in dealing with large issues running into billions of dollars, you have all kinds of questions coming up. Some people say—Well, is the Government buying this? Is the full faith and credit of the Government behind this?

Mr. BROCK. That has no relevance to the matter whatsoever.

Mr. PATMAN. People ask—Is there a Government guarantee behind this? How do we get our money in case of a default? There are always questions like these coming up. So they say, let us do it by negotiation. And by negotiating or negotiations sometimes you can get a better trade than you can by competitive bidding. Where the people in charge are convinced that negotiation would be a better way to handle it, they would be allowed the privilege of doing it and, of course, it would be in the public interest always.

Mr. BROCK. We agree with the desirability of competitive bidding, of course.

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman.

Mr. FINO. I would like to ask the gentleman from Texas whether he is familiar with the incident involving the SBIC where there was an 8.5 discount on an issue of the SBIC.

Mr. PATMAN. I am familiar with that and I did not like it at all.

Mr. FINO. That was negotiated with one brokerage house—that is the important thing—it was negotiated with one brokerage house.

Mr. PATMAN. I did not like that at all. But I do not know of anyone who can show that a better deal could have been made.

Mr. FINO. How would we know that unless competition was permitted by the different brokerage houses?

Mr. BROCK. If I might point this out—how would we know at any time what the best bid obtainable is, unless we allow competitors to come in and bid.

If the mentioned brokerage house was going to offer an 8½-point discount, they would have offered it on a competitive-bid situation, as they did when the bid was negotiated.

Mr. MULTER. Mr. Chairman, I move to strike the last word.

The CHAIRMAN. The gentleman from New York is recognized for 5 minutes.

Mr. MULTER. It is amusing that none of the argument that we are hearing today on this amendment took place during the Eisenhower administration. We have been proceeding with this method of disposing of securities of the U.S. Government for many, many years, and this is the first time that I can remember that anyone has come forward with a proposal such as this.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. MULTER. I yield to the gentleman from New Jersey.

Mr. WIDNALL. This method was never used by the Eisenhower administration.

Mr. MULTER. Will the gentleman tell the committee then how these obligations were disposed of during the Eisenhower administration?

Mr. WIDNALL. They were sold outright, actual sales by the agency.

Mr. MULTER. What difference does it make whether you sell them outright or you sell an interest in them. I am talking about the method of sale, not whether you sell the whole instrument or an interest in the instrument.

Mr. WIDNALL. They are sold in the open market under a program initiated by the Eisenhower administration.

Mr. MULTER. That is precisely what will be done here. They will be sold in the open market. If you have more than one bidder, they will go to the bidder with the lowest cost and the highest yield in the best interests of the U.S. Government. Look at what you are trying to do. Just look at the language of this amendment.

While the purpose may be good in trying to get the best result for the Government in the sale of these assets and participations therein, when you try to do it at the lowest cost of selling, what you have done—and listen to your own language—what you have done here is to provide that when a beneficial interest or participation is to be underwritten, the contract shall be awarded only on the basis of competitive bids. That means that, if there are no competitive bids, you cannot sell them. Whether you intended that result or not there can be no sale if there is only one bidder. If this amendment is adopted we will never be able to dispose of these participation interests. We will never be able to sell an issue or a part of an issue unless we get more than one person to bid. That is what competitive bids mean.

The situation as it exists today and will exist if this amendment is defeated, is that the administration or FNMA will use its discretion. When it can get several bidders to come in and bid, it will sell to the lowest bidder so far as the cost of sale is concerned, and so far as return is concerned, it will go to the highest bidder. In that way the Government's best interests will be served.

We must leave this provision flexible. As the chairman has stated, we must leave this to the discretion of those who will undertake to sell the obligations. When you can bring the whole market in and have many bidders bid against each other, that is fine. The fact is that anyone who knows anything about the way this market operates and the way these sales are made every day in the week in the open market—if you can call it an open market—these underwriters get together and they agree among themselves about what they will buy and on what terms. They say, "We will divide this up. I will take 10 percent, you take 20 percent, another participant takes 50 percent," and so forth. If only one bid comes in, then there is no competitive bidding. Unless you devise some way to stop that kind of business, you will not get competitive bids.

If this language is adopted, you might just as well forget about the bill and not pass it. You will not be able to sell any of these assets or any participations therein.

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. MULTER. I yield to the gentleman from New York.

Mr. FINO. For a moment the gentleman sounded like he was supporting the amendment, and then I lost him along the way. I wish to apprise the gentleman that if this amendment is adopted, you will have and must have competitive bidding.

Mr. MULTER. The gentleman has said—

Mr. FINO. May I finish my statement?

Mr. MULTER. I refuse to yield any further. Let us stop right there. If there are no competitive bids, if there is not more than one person to offer a bid, there would be no sale under this language. That is what you mean by com-

petitive bids. If you insist that there must be competitive bids and there is only one bidder, there can be no sale.

Mr. BROCK. Mr. Chairman, will the gentleman yield?

Mr. MULTER. I yield to the gentleman from Tennessee.

Mr. BROCK. The amendment does not say that.

Mr. MULTER. The amendment says that there must be competitive bidding, which means that there must be an open and competitive market. If only one bid comes in, there is no competition. The language is: "Whenever an issue is to be underwritten, the Association, that is, FNMA, shall award the contract on the basis of competitive bids."

That is the entire language. If there are no competitive bids, there can be no sales. That is what this amendment requires.

Mr. BROCK. Mr. Chairman, will the gentleman yield further?

Mr. MULTER. Certainly, I yield to the gentleman from Tennessee.

Mr. BROCK. It requires the agency to open bidding competitively. If one bid comes in, there is nothing that precludes them from accepting that.

Mr. CURTIS. Mr. Chairman, I rise in support of the amendment, and move to strike the requisite number of words.

We have been listening to a very strange colloquy on the part of the majority here. The manner in which we market Government bonds which are under the debt ceiling—and the Ways and Means Committee has to be concerned about it—is through a competitive bid process. It is the open market operation conducted by the Federal Reserve Board. Why anybody would want not to have competitive bidding for these securities puzzles me.

The gentleman from Texas, the chairman of the Joint Economic Committee—another committee on which I serve—has rightly pointed out that we have gone into this aspect of the matter.

Let me carry it a bit further to one of our subcommittee on the Joint Committee which deals in this whole broad area of Federal procurement. One of the points this subcommittee has been driving home is that the Government gets a better price when we have competitive bidding. The only time we have negotiated bidding is when, by the very nature of the contract—where you may be procuring a submarine or something very technical—we go to negotiated bidding. That is the only time we do so.

Even on these negotiated biddings, we have been developing a process of breaking out of the primary contract areas, subcontracts where we may have competitive bidding.

I served with my good friend from Texas, who chaired for many years the Small Business Committee. There we were able to establish finally the point that, as competitive bidding is used, the participation of small business increases, and, as competitive bidding is used, the Government gets a better price.

I served with my good friend from Texas in the 82d Congress on the Small Business Committee.

It is shocking to me to have this argument develop here. Surely we want to have competitive bidding in this area, just as we have developed it over a period of years through the open market process, where the Federal Reserve System has the responsibility of assisting the Treasury Department in creating a good market for Government securities.

Mr. MULTER. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from New York.

Mr. MULTER. Mr. Chairman, all I am arguing for is that we do precisely the same as you are advocating, which is the proper procedure for the disposition of other Government securities. This will limit it to a competitive bidding. If there is no competitive bidding, there will be no sale.

Mr. CURTIS. There should not be. Let me make this point. If we have only one bidder there should not be a sale. There is something wrong. We should withdraw it and get it in proper order, if all we have is one person to bid.

Mr. MULTER. The fact of the matter is that whenever a Government issue is offered on the market, and there is only one bidder, Government is not required by law to say we will not sell. We sell, unless we withdraw because the price is too high, or it is going to result in too small a return.

But the law vests discretion in the executive departments. The gentleman cannot point to a single statute which binds the hands of the open market committee to competitive bidding. They can do it by competitive bidding. They can take one bid, if that is all that comes in, or they can negotiate. That is all we do here.

Mr. CURTIS. If the Open Market Committee had not established it over a period of years, this common custom, where they do use competitive bidding, I would say we would need to do it by statute.

We are coming in here with something new. Believe me, there is no reason why we could not state in statute form what the Open Market Committee actually does do.

Mr. McCORMACK. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. McCORMACK. I am interested in having the views of the gentleman from Missouri, following his statement that with one bid there would not be a competitive market, concerning the situation which might occur. What would stop two or three or four or five from getting together among themselves? We know that happens.

Mr. CURTIS. They sometimes do.

Mr. McCORMACK. There is nothing unusual about that, in private business. Then one man submits the bid. Where would we be then? Behind one bid, we know, there might be a combination of persons operating or cooperating together.

Mr. CURTIS. I might say to the Speaker, he is absolutely right. That is also public information. If it is known

that kind of process has been employed to defeat the purpose of competitive bidding I would tend to withdraw the request for bid, if I were the Secretary of the Treasury.

Mr. ARENDS. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. ARENDS. Do not the antitrust laws take care of such things as the gentleman mentioned?

Mr. CURTIS. They could, all right.

Mr. PATMAN. Mr. Chairman, I believe we have discussed this for a long time. I ask for a vote.

The CHAIRMAN. The question is on the amendment offered by the gentleman from New York [Mr. FINO].

Mr. FINO. Mr. Chairman, I demand tellers.

Tellers were ordered, and the Chairman appointed as tellers Mr. FINO and Mr. MULTER.

The Committee divided, and the tellers reported that there were—ayes 88, noes 95.

So the amendment was rejected.

AMENDMENT OFFERED BY MR. WIDNALL

Mr. WIDNALL. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. WIDNALL: On page 4, line 14, immediately after "as the direct sale" insert "with recourse".

Mr. WIDNALL. Mr. Chairman, a committee amendment appearing on page 3, line 9 of the bill, changes the word "may" to "shall." This change was agreed to by the administration witnesses testifying on the bill.

The purpose of the change was to require by statute that an agency pooling loans with FNMA be required to guarantee the loans so pooled. The effect of the amendment is that guaranteed loans be included in the authorized limit for the agency's lending activity.

Unfortunately, the committee acted with such speed in its brief executive session that a necessary conforming change was not made in another sentence of the bill to give real meaning to changing the guaranty requirement from a permissive to a mandatory basis.

The amendment I propose will make this necessary conforming change by making clear that the sales we are talking of are sales "with recourse" which corresponds to the mandatory requirement that loans pooled by an agency be guaranteed by an agency which, of course, means that the loans so pooled are pooled "with recourse."

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Texas.

Mr. PATMAN. Mr. Chairman, we are willing to accept the amendment. It conforms to the whole intent.

The CHAIRMAN. The question is on the amendment offered by the gentleman from New Jersey [Mr. WIDNALL].

The amendment was agreed to.

AMENDMENT OFFERED BY MR. BROCK

Mr. BROCK. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. BROCK: On page 7, immediately after line 6, insert:

"(6) No beneficial interest or participation may be issued pursuant to this subsection after the enactment of this paragraph bearing an interest rate in excess of one-half of one percentage point above the $4\frac{1}{4}$ -percent maximum interest rate specified for long-term bonds of the United States in the first section of the Second Liberty Bond Act (31 U.S.C. 752)."

Mr. BROCK. Mr. Chairman, this is an amendment against high interest rates. Those who are against high interest rates should support it. Those who are for high interest rates should vote against it. The issue is that simple.

The interest rate ceiling that this amendment would place on participations sold after the passage of this act would be geared to the existing $4\frac{1}{4}$ -percent ceiling on long-term Treasury bonds that is imposed by the Second Liberty Bond Act.

All are in agreement that participation financing is more expensive than Treasury financing. The Treasury claims the additional cost approximates $\frac{1}{4}$ percent to $\frac{3}{8}$ percent. In the present market, on the basis of participations recently sold by both Export-Import Bank and FNMA, the additional cost has amounted to as much as $\frac{1}{2}$ percent to $\frac{5}{8}$ percent.

The amendment would recognize this demonstrated rate differential and establish a maximum interest rate ceiling on participations to be sold. This ceiling could not exceed $4\frac{3}{4}$ percent which is one-half percent more than the statutory $4\frac{1}{4}$ percent ceiling applicable to long-term Treasury bonds.

This amendment would not kill the participation program. To date, FNMA has sold four issues of participation. The first of three issues aggregating \$1.2 billion all were sold with rates under the $4\frac{3}{4}$ percent rate ceiling which the amendment would establish. The rates for the first three issues varied from $4\frac{1}{8}$ percent to 4.70 percent. It is only the last issue—the \$410 million offering on March 16, 1966—that would have been barred by the amendment. Rates on this last issue ranged from 5.25 percent to 5.50 percent depending on maturity of the participations sold.

When we are in a money market so tight that a rate of 5.50 percent must be paid on what in effect is U.S. Government credit, there ought to be a rate ceiling temporarily staying such financing. The amendment would do just that. It would effectively postpone operation of the program in periods of extremely tight monetary stringency such as exists at the present time.

As I have said, those who are against high interest rates should vote for the amendment.

I urge the adoption of the amendment.

Mr. PATMAN. Mr. Chairman, I rise in opposition to the amendment which has been offered by the gentleman from Tennessee [Mr. Brock].

Mr. Chairman, this amendment, if adopted would effectively kill the bill.

I am not in favor of high interest rates. I am in favor of reasonable rates. We have to be realistic. We do not fix the market on interest rates. That is fixed by the Federal Reserve. I do not like the way in which the Federal Reserve has acted with respect to this matter, but what can we do about it.

Mr. BOGGS. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman from Louisiana.

Mr. BOGGS. The gentleman from Texas certainly does not have to defend his stand insofar as interest rates in this country are concerned; is that not so?

Mr. PATMAN. Yes, sir; that is exactly right.

Mr. BOGGS. Mr. Chairman, if the gentleman will yield further, is it not further so that if this amendment is adopted it would put a limitation upon the disposition of the securities and the effort thereof would be to substantially kill the bill?

Mr. PATMAN. It certainly would and it will deny the small businessman opportunities to obtain loans which otherwise he would be permitted to obtain under this bill. It would deny small towns of the opportunity to obtain facilities loans.

Mr. Chairman, if we are going to vote for big cities, this is the only opportunity we will have to make a gesture toward helping the small towns of the country.

We have a health problem in small towns involving water and sewer and sanitation facilities of all kinds. That can be helped under this bill, but the bill will be killed with this amendment in it. So why should we take advantage of the small towns and small business and housing and veterans—this would hurt the veterans—it will hurt everybody who is small—including the small towns.

I hope the gentleman will not insist on this amendment. It is just utterly devastating. He states here:

More than one-quarter of one percent above the four and one-quarter percent rate.

I guess the gentleman has in mind the long-term Government bonds. But he does not say so. I will say to the gentleman, the amendment is very loosely drawn. If the gentleman wants to specify the short-term rate, it could be indefinite—the short-term rate right now is higher than what he would permit us to sell these securities for. So far as the short-term rate is concerned, this amendment is devastating and destructive and it is certainly not in the public interest or in the interest of this bill.

I hope the gentleman will not insist on his amendment. It is just not right. It would be destructive so far as the little people and the poor people are concerned and the small towns.

Mr. BROCK. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman.

Mr. BROCK. I am somewhat interested in the chairman's definition of what is destructive to people such as farmers, veterans, and small towns.

These are the very people who are virtually crucified by high interest rates. This amendment is not offered in an effort to kill the bill. It is offered in an effort to keep Fannie Mae from destroying this money market at a time when conditions are stringent and when money is in short supply. When you sell \$4 billion worth of these participations in the market, this sale is going to drive interest rates up. That is what is destroying the small businessman.

Mr. PATMAN. I will say to the gentleman, this could be labeled a big bankers' bill. This amendment could be called a bankers' bonus amendment.

Mr. BROCK. I am amazed to hear the gentleman say that the bill is a big bankers' bill, but the amendment would limit interest costs to small borrowers. Does the gentleman deny the statement I made?

Mr. PATMAN. If you stop them from selling long-term Government bonds, which this would, to carry this into effect, then they would have to go into short terms and the big bankers could get 10 percent on the short term. They are not even restricted. Does the gentleman want to do that? Does he want to restrict them on long terms only and no restriction on the short terms?

Mr. MULTER. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman.

Mr. MULTER. I would like to make this point.

If this amendment prevails, we could not sell any of these obligations in today's market.

Today's Wall Street Journal quotes the yield on U.S. Treasury bonds as \$4.91.

Here is an advertisement for obligations of the Federal Home Loan Banks—this is in today's paper—5.55 percent is the yield.

Here is another advertisement in the Wall Street Journal of today by one of the national banks advertising a 5½-percent return.

Now how are we going to meet that kind of competition if we limit this as this amendment would?

Mr. Chairman, this amendment should be defeated.

Mr. BROCK. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman.

Mr. BROCK. The gentleman from New York has just made my case for me. The gentleman is absolutely correct. We should not be selling these bonds.

Mr. PATMAN. Mr. Chairman, the gentleman has had his say and I have had mine. Let us have a vote on the amendment.

Mr. JONAS. Mr. Chairman, I move to strike out the last word.

Mr. Chairman, I do not want to hold up any vote, but I do not want to have the vote come now with the comment of the gentleman from Texas being the last word on this subject. The very idea of calling this amendment a bonanza for bankers when the apparent purpose and objective sought to be attained by the original bill would be such a bonanza. The only people I know who will benefit

from this bill, if it is passed, are the bankers, the institutional investors and the big people in this country. This bill operates directly to the detriment of the small people of this country, and the small homeowners, and the people who are seeking to acquire homes as well as against the small towns and villages.

We have ongoing programs providing now financial help to enable small towns to put in water systems and sewer systems. We do not need this bill for that purpose. This is a bill that would tax the little people all over the country and subsidize the interest rates for the investors of the country who enjoy high interest rates which will flow following the adoption of this bill.

What the amendment will do is to operate in exactly the opposite direction from that. This amendment will be opposed by the bankers and all the people who would like to buy these participation certificates.

Mr. GERALD R. FORD. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from Michigan, the minority leader.

Mr. GERALD R. FORD. Mr. Chairman, I never thought I would see the day that the distinguished gentleman from Texas [Mr. PATMAN] would favor higher interest rates. I never thought I would see the day that he would be against competition in the sale of Government securities. I am amazed to see the gentleman converted to positions different from what he has advocated previously.

Now, let me say this: This provision, as I understand it, as it was clearly set forth by the gentleman from Tennessee and amplified by the gentleman from North Carolina, would seek to keep a ceiling on interest rates. It would preclude the large bankers from the major metropolitan cities from having a bonanza. I do not see how anyone on that side of the aisle or on this side of the aisle could possibly oppose this amendment. If you oppose it, you are a high-interest man. If you are for it, you are a low-interest man. Apparently the Democrats are for high-interest rates.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the gentleman from Texas.

Mr. PATMAN. The amendment refers to the Second Liberty Loan Act. That applies only to long-term Government loans. That is a public debt. If you restrict them to where they cannot sell the obligations under long-term notes, then they have to go to a short term. If they go to a short term, there is no restriction on the rate. That is what they want. They want to compel us to go into the short-term market, where the interest rates could be 6 percent, 7 percent, 8 percent, 9 percent, and 10 percent. This would compel us to go into that short-term rate, which would be against the public interest.

I hope the gentleman will not insist on his amendment.

Mr. BROCK. Mr. Chairman, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the gentleman from Tennessee.

Mr. BROCK. The chairman is misinformed on the amendment. It has nothing to do with short- and long-term markets. The bill relates to the Liberty Bond Act because it relates to ceiling on long-term debt interest rates, and insofar as this bill is concerned, it limits short- and long-term loans to 4¾ percent. It does not say that we have to go to one market or another. It is a simple device to limit the amount of interest to be paid on these participations.

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the gentleman from North Carolina.

Mr. JONAS. Mr. Chairman, I do not blame anyone who is in favor of high interest rates for opposing this amendment. I am opposed to constantly increasing high interest rates, and I therefore support the amendment of the gentleman from Tennessee.

Mr. CURTIS. Mr. Chairman, I rise in support of the amendment.

The CHAIRMAN. The gentleman from Missouri is recognized for 5 minutes.

Mr. CURTIS. I think we have before us an amendment which demonstrates what I said yesterday was the sham of this proposal that the House is now considering. The remarks of the gentleman from Texas about the difficulties that would be imposed in a proper marketing of these securities by having an interest ceiling on it have a great deal of merit. But the gentleman from Texas announced yesterday that he had 100 votes on the Democratic side who would resist the repeal of the 4½-percent interest ceiling on long-term Government bonds, that which is referred to in this amendment. Those are bonds that are over 5 years in maturity.

It is true that in the past few months we have been unable to market any long-term securities. The interest ceiling has disrupted the proper management of the Federal debt. It has, indeed, done the very thing which the gentleman from Texas said would occur. It has forced the Federal Government to move into short-term bills and notes paying higher interest and, I might say, the more you get into the 90-day bill area, the more near money you are producing and actually translating inflationary forces that exist in our society into price increases.

You cannot have it both ways, my good friends on the Democratic side. You cannot argue against the ceiling that is being imposed on these securities, which is a more liberal ceiling than that which you have imposed on our big Federal debt of some \$300 billion. This ceiling here proposed is more liberal. It will disrupt the market less than the 4½-percent ceiling that is imposed on the present Federal debt.

If the Democratic Party wants to be a responsible party—and this administration wants to be responsible—and I use that word advisedly—you have got to come in here forthrightly and admit that your policies have created a situation in which the marketplace is demanding higher interest rates.

It is because of the high interest rates that the Treasury is prevented from an orderly marketing of Government securities. This is one reason I have suggested the bill before us is a sham. It is simply trying to avoid facing up to removing the interest ceiling on long-term bonds by leaving the door wide open in the area of approximately \$10 billion of securities, where, if the market demands it, interest becomes 6 percent. We will allow the Government to pay this high rate.

Vote as you just did, as a party, on an issue that should not be a party issue. Disregard the arguments that many of the Democrat Members know in their hearts are accurate. Disregard them and play politics with the future of our country.

Mr. HANNA. Mr. Chairman, I move to strike the requisite number of words.

Mr. Chairman, I make just one comment to the Democratic side. What we have just witnessed is an attempt on the part of the Republicans to control the free market. They are trying to confuse the minds of Members as to how we affect the interest rate when we are borrowing money as against the interest rate of the market when there is bidding on something we are trying to sell. I do not think they will confuse the Members. I think we know what we are voting for. I suggest we defeat the amendment.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Tennessee [Mr. BROCK].

The question was taken; and on a division (demanded by Mr. BROCK) there were—ayes 55, noes 89.

Mr. BROCK. Mr. Chairman, I demand tellers.

Tellers were ordered, and the Chairman appointed as tellers Mr. Brock and Mr. MULTER.

The Committee again divided, and the tellers reported that there were—ayes 90, noes 90.

So the amendment was rejected.

Mr. PATMAN. Mr. Chairman, I ask unanimous consent that the bill be considered as read and open to amendment at any point and subject to a point of order at any point.

The CHAIRMAN. Is there objection to the request of the gentleman from Texas?

Mr. WIDNALL. Mr. Chairman, I object.

The CHAIRMAN. Objection is heard.

AMENDMENT OFFERED BY MR. FINO

Mr. FINO. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. FINO: On page 7, insert the following immediately after line 6: "(6) Certificates of beneficial interest or participation shall be offered in denominations of \$100, \$500 and \$1,000, and in whole-number multiples of \$1,000. No minimum subscription other than \$100 may be prescribed with respect to any issue of beneficial interests or participations under this subsection."

Mr. FINO. Mr. Chairman, I ask unanimous consent to proceed for an additional 5 minutes.

The CHAIRMAN. Is there an objection to the request of the gentleman from New York?

Mr. PATMAN. Mr. Chairman, may

we have an understanding that we restrict the discussion under this bill to 20 minutes? I ask unanimous consent that we do.

The CHAIRMAN. The Chair will advise the gentleman from Texas that the remainder of the bill has not yet been read.

Mr. PATMAN. I mean that this amendment be restricted to 20 minutes. Let the gentleman from New York have 10 minutes.

Mr. OTTINGER. Mr. Chairman, reserving the right to object, I have an amendment to this amendment. Would the Chair advise me when that would be in order?

The CHAIRMAN. After the gentleman from New York [Mr. FINO] concludes his remarks it would be in order.

Mr. OTTINGER. And would the time reservation apply to my amendment, as well as to Mr. FINO's amendment?

The CHAIRMAN. The Chair understood the request on the restriction of time to be on the pending amendment and amendments thereto and that the time close in 20 minutes. Therefore, it would apply to the gentleman's amendment.

Mr. GERALD R. FORD. Mr. Chairman, a parliamentary inquiry.

The CHAIRMAN. The gentleman will state his parliamentary inquiry.

Mr. GERALD R. FORD. Did I understand the gentleman from New York who offered the amendment, Mr. FINO, was given permission to proceed for 5 additional minutes?

Mr. PATMAN. Not yet. We will not object to it if we can restrict the time to 20 minutes.

The CHAIRMAN. The request of the gentleman from New York [Mr. FINO] to proceed for an additional 5 minutes is pending under what the Chair considered to be a reservation by both the gentleman from Texas and the gentleman from New York [Mr. OTTINGER].

Mr. GERALD R. FORD. A further parliamentary inquiry, Mr. Chairman. Under the gentleman from Texas' request does he include the 10 minutes of the gentleman from New York [Mr. FINO]?

Mr. PATMAN. Yes.

Mr. OTTINGER. Mr. Chairman, I object.

Mr. PATMAN. Mr. Chairman, I ask unanimous consent that the time be restricted to 25 minutes and 5 minutes be given to the gentleman from New York [Mr. OTTINGER].

The CHAIRMAN. Is there objection to the request of the gentleman from Texas?

There was no objection.

The CHAIRMAN. The gentleman from New York [Mr. FINO] is recognized for 10 minutes on his amendment.

Mr. FINO. Mr. Chairman, this amendment would require participation certificates to be issued in denominations of \$100, \$500, \$1,000 and multiples of \$1,000 instead of in denominations of \$5,000 and up as proposed. The purpose of my amendment is very simple. I know that the administration wants to reserve the windfall of 5½ percent interest for the fat-cat investors. That is why they are trying to keep the minimum denomination at a level above

\$1,000. My amendment would let the little guy in the street, the investor with only a few hundred dollars, share in this windfall.

I have already mentioned, during general debate, the reason why the administration is going to pay these outrageously high interest rates. They could borrow the money more cheaply by borrowing through the Treasury, but that would not produce receipts that were good for budget trickery. You need private receipts for budget trickery, and the administration will pay any necessary rate to get them. Of course, the rate they pay is highest in a year just like this one, where inflation is rampant, but what else can we expect a program which, by its very political nature, will be selling participations in inflationary, budget deficit years?

Now you might imagine that fiscal and monetary trickery like this would invoke the condemnation of the fat-cat investors who are always talking about sound economic policies. They are strangely silent instead. Why? Because they are getting a windfall. The President's program is a multimillion-dollar windfall for the fat-cat investors of America. This is because only the fat cats can scrape together enough money to meet the dollar requirements of a \$5,000 or \$1,000 denomination minimum. You have to be a "fat cat" to have the amount of money required to get 5½ percent interest from the U.S. Government.

This bill is murder on the little guy in the street. First of all, it will boost his tax burden by making the budget safe for excess spending which always means more taxes. Secondly, it will boost his taxes by socking him for the money to pay the high interest rates. Third, it will sock him by sidetracking funds that would otherwise go into mortgages and other credit, and this will make the little guy pay more for his mortgage or other credit. Lastly, it will insult him by paying out 5½ percent interest to the fat cats who come around to the backdoor while regular Government savings bonds pay only 4 percent.

This has a bad odor to me. The Federal Government is spending thousands of dollars on advertising campaigns pushing Government savings bonds. The pitch used is an appeal to patriotism. This is a joke. This administration talks with the patriots and sleeps with the profiteers. Patriotism gets a 4-percent interest rate and collusion with budget-juggling earns 5½ percent for fat cats. I imagine that the President believes that the little guy on the street cannot understand this bill. No doubt some of it is too technical for the layman, but I think what I am discussing right now will be understood in our Nation's cities and towns. The fat cats are going to get 5½ percent for playing ball with a Federal financial swindle, while Joe Taxpayer and Joe Patriot who buy savings bonds are given 4 percent and told everything is rosy. Nobody is going to buy this. A windfall is a windfall, and the people will figure it out.

This whole program is going to be a Democratic teapot dome if it passes. It is a double-barreled windfall. First, a select group of clubby investment houses

are going to get a windfall underwriters commission without competitive bidding. Secondly, a lot of "fat cats" are going to get a 5½-percent windfall just for clipping coupons.

I am proud that it has fallen to the Republican Party to protect the man in the street while the administration tiptoes around to the back door with the "fat cats" for a raid on our Nation's tax dollars. My amendment would make the 5½-percent interest rate available to the people—to the small investor with a couple of hundred dollars—so that it will not go just to the "fat cats."

I hope the House will support my amendment. I hope I can count on the support of the gentleman from Texas, the chairman of our committee. I know the gentleman will be with me if he is for the people. I hope the House will join with me to vote for the people. I urge the adoption of my amendment.

The CHAIRMAN. When the unanimous consent request was granted, the chair observed on their feet the following Members: the gentleman from Texas [Mr. PATMAN], the gentleman from New Jersey [Mr. WIDNALL], the gentleman from Iowa [Mr. GROSS], the gentleman from Michigan [Mr. GERALD R. FORD], the gentleman from New York [Mr. MULTER], and the gentleman from New York [Mr. OTTINGER].

For what purpose does the gentleman from New York, a member of the committee rise?

AMENDMENT OFFERED BY MR. OTTINGER

Mr. OTTINGER. Mr. Chairman, I offer an amendment to the amendment offered by the gentleman from New York [Mr. FINO].

The Clerk read as follows:

Amendment offered by Mr. OTTINGER to the amendment offered by Mr. FINO: Strike the language of the Fino amendment and substitute therefor the following: Add to page 7, line 6, after the end of the sentence on line 6:

"Any beneficial interests or participations issued hereunder shall be issued only in denominations of fifteen thousand dollars (\$15,000) or greater."

The CHAIRMAN. Under the unanimous-consent agreement, the gentleman from New York [Mr. OTTINGER] is recognized for 5 minutes.

(Mr. OTTINGER asked and was given permission to revise and extend his remarks.)

Mr. OTTINGER. Mr. Chairman, what we do in one area of the financial world has grave effects on other financial institutions. We have recently witnessed the action of the Federal Reserve Board in revising Regulation Q to permit payment of interest at the rate of 5½ percent on certificates of deposit-time deposits.

As a result of this regulation, we have seen virtually all of the money available to the small man—to the man that my colleague, the gentleman from New York [Mr. FINO], is referring to—drained out of the savings and loan institutions and from the savings banks and even from the small commercial banks of our country.

We have seen as a result the necessity for the Home Loan Bank Board to issue

regulations restricting savings and loan institutions in making future commitments in the mortgage market. We hear from our builders all over the country that there is just no mortgage money left or available for the small home owner or for the man who wants to build a home. The small individual or small businessman who needs a small loan finds that there are no funds available for his needs.

If the amendment offered by my colleague, the gentleman from New York [Mr. FINO] were adopted, it would mean in addition to the certificates of deposit that are already draining money from the mortgage market, there would be issued these participation certificates in small denominations causing a further drain and a further strain on this already strangling markets.

I chose the \$15,000 figure as a limitation because that is the amount the President of the United States has recommended as the maximum deposit insurance limit.

The small investor is not going to be hurt by this limitation of \$15,000. He still has available all the present avenues to invest his money at larger rates of interest if he so chooses—such as a wide variety of private stocks and bonds and various types of public issues. But it is the small man who will be hurt when he tries to buy a house or tries to obtain a mortgage or tries to obtain a personal loan. It is the builder who is building for this small man who will be hurt if the Fino amendment is adopted.

Mr. Chairman, I strongly urge the adoption of my amendment.

I have a bill pending before the Committee on Banking and Currency to limit the use of these certificates of deposit to \$15,000 and up. This amendment would be complementary.

We are not hurting the small investor by my amendment. We are just reflecting a situation that presently exists within the financial market with respect to rates of interest that can be obtained by large and small investors. We are not doing any more harm to the small investor than the present situation indicates.

I, therefore, ask for the passage of my amendment and for the defeat of the amendment offered by my colleague, the gentleman from New York [Mr. FINO].

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. OTTINGER. I yield to the gentleman.

Mr. FINO. My colleague by his amendment which he has offered as a substitute for my amendment would increase the limit from the \$5,000 and \$10,000 limitation that Fannie Mae currently issues to a limitation of \$15,000; is that correct?

Mr. OTTINGER. That is correct.

Mr. FINO. In other words, you are increasing the limitation so that the little fellow has absolutely no chance to get in on this windfall; is that correct?

Mr. OTTINGER. These certificates of participation, as was testified to by the representatives from the Federal agencies, are not intended to go on the general market. They are not intended to

compete for already scarce money available to the home buyer and the small home buyer.

These participations are intended for sale to the investment trusts, pensions and the institutional investors of the country.

The amendment of the gentleman from New York, I am afraid, would just wreak further mischief on an already impossibly tight mortgage market throughout the country and make these builders and home buyers bear an unreasonable share of the burden of trying to restrict credit and stop inflation in the country.

Mr. FINO. Mr. Chairman, will the gentleman yield?

Mr. OTTINGER. I yield to the gentleman.

Mr. FINO. My objection to the present law and my objection to the present situation in Fannie Mae is that you are taking care of the fat cats.

Under your amendment you will take care of the bigger fat cats.

Mr. OTTINGER. My amendment is not going to make anyone a fat cat—but the amendment of the gentleman from New York [Mr. FINO] will assuredly make of the Nation's home buyers, small borrowers and small businessmen mighty thin dogs.

I urge adoption of my amendment and defeat of the amendment of my colleague from New York.

The CHAIRMAN. The gentleman from Iowa [Mr. GROSS], is recognized for 3 minutes.

(Mr. GROSS asked and was given permission to revise and extend his remarks.)

Mr. GROSS. Mr. Chairman, I could not believe my ears when the gentleman from New York arose and offered his amendment to put the amount of the certificates up to \$15,000. I am an awfully slim cat. I would like to be a fat cat. What do you expect me to do? The gentleman from New York is on his feet on the floor of the House. Do you want to make me buy Government bonds, which are all I can get because these are in denominations I can afford to buy, and get only a little more than 4 percent interest on them, while the certificates to be issued under this bill would be fed out to the bankers in New York and elsewhere in \$15,000 denominations and at a 5½-percent interest rate? How do I get fat under the terms of your amendment?

Mr. OTTINGER. Mr. Chairman, will the gentleman yield?

Mr. GROSS. I yield to the gentleman from New York.

Mr. OTTINGER. The small man will not have anything taken from him. He has all the avenues of investment available to him that he had before, and there are plenty of avenues that will open up.

Mr. GROSS. Like me, he is going to be denied the opportunity to get in on this windfall. I have not got \$15,000 to put into one certificate and neither has millions of others. How am I and millions of others going to get in on this windfall?

Mr. OTTINGER. You are going to get in on this in a number of ways. You will have money in the small business

program that you never had before. You will have money available for your veterans' programs you did not have before. You will have money available when you want to go out to buy a house or get a mortgage on a house that you did not have before.

Mr. GROSS. It sounds like some bond company must have had some hand in the drafting of this amendment. The record is clear that only a few would have the opportunity to purchase these certificates at the high interest rates unless the amendment offered by the gentleman from New York [Mr. FINO], is adopted.

Mr. CLEVELAND. Mr. Chairman, will the gentleman yield?

Mr. GROSS. I yield to the gentleman from New Hampshire.

Mr. CLEVELAND. I think the gentleman from Iowa is being a little naive. Apparently you have not read the newspapers lately. I think what you should do to get in on one of these nice \$15,000 certificates, that the gentleman from New York wants to doll up for you, is to have a little testimonial dinner. Then when you get the proceeds of the testimonial dinner, perhaps you can get in on one of these "fat cat" certificates.

Mr. GROSS. I thank the gentleman for his suggestion, but where do I find the testimonial dinner?

Mr. OTTINGER. Some place, somewhere, there must be someone.

Mr. GROSS. Mr. Chairman, I have heard it said that the Democratic Party was the party of the little people. This afternoon I have seen them vote against every amendment in behalf of the little people. As the gentleman from New York [Mr. FINO] well said a little bit ago, you are making the fat cats fatter, sleeker, and fatter—and I thought you claimed the party of the little people.

Mr. Chairman, this is thoroughly bad legislation. It sweeps fiscal responsibility under the rug temporarily, but the day will come when the odor will become so strong that it cannot be hidden by devices of this kind.

As others have stated, it makes a mockery of the Federal debt ceiling. It is deception in its worst form.

I assume there will be a final rollcall vote, but I want to be certain that I am on the record as opposed to this bill.

The CHAIRMAN. The Chair recognizes the gentleman from New York [Mr. MULTER] for 3 minutes.

Mr. MULTER. Mr. Chairman, I am as amused as all of us should be. When the fat cats start talking about the fat cats getting fatter, I think we should smile. Yes, I am looking at the gentleman who has been using the words "fat cat" throughout this debate from the day it opened. I am just wondering what fat cats he is trying to protect.

I have always been warned against the man who would become offensive and start calling names instead of talking about the merits of a situation. I am frightened now that I see our friends on my left, those on the right side of the aisle, who have always been the friends of the fat cats and the moneyed interests, suddenly moving over onto our side and telling us they are looking out for

the little fellow. What is this that has caused them to be so interested in the little fellow all of a sudden? Is it merely because election is around the corner and they are trying to fool the people and to prove that they are the friends of the little man?

Let us see what they are trying to do here. If we adopt the Fino amendment, which would require that these obligations be sold in lots of \$100 each, instead, of, as the gentleman from New York [Mr. OTTINGER] would indicate that they should be sold, in lots of a minimum of \$15,000 each. The savings and loan people and the savings bank people are now crying that they have no money with which to make loans on houses and for other purposes which would help the little man.

This bill is intended to make more money available to them. But this amendment will try to take the money, which should go into thrift institutions and divert them to these obligations. The amendment will drive up the cost of the administration of the program. It will also drive up the interest rate generally, which is high enough now. This will run it even higher. The gentleman knows this as well as anybody, because he has been speaking for these "fat cats" over the years.

The wider the distribution of these instruments we try to sell on the market, the wider we try to get the distribution in the market, the more costly it is to market the instruments.

According to today's Wall Street Journal, the sale of U.S. Treasury bonds are at yields as high as 4.91 percent, just under 5 percent. The national banks are advertising for funds and are willing to pay 5 percent for them. The Home Loan Bank Board is selling its debentures today at a rate that will yield 5.55 percent. Are we going to try to push up the rates still higher, so as to try to attract the little fellow into this kind of operation? It will run the cost still higher.

Let me remind the Members, we have never yet succeeded in legislating the market or the interest rate in the market, or the yield. If we limit the amount of interest that may be paid, the debenture or obligation or security is going to be sold at a discount, and the discount runs the rate that much higher.

I urge defeat of the Fino amendment.

The CHAIRMAN. The Chair recognizes the gentleman from New Jersey [Mr. WIDNALL].

Mr. WIDNALL. Mr. Chairman, the gentleman from New York said that we have never succeeded in legislating the market. I seem to remember that there is something on the statute books right now, called the 4¼-percent ceiling on U.S. Government bonds. That was legislated by the Congress, and the Congress has been unwilling to do anything about that ceiling, because they were so successful in legislating it, I presume. If they were not successful, that problem should be faced up to realistically.

What I would like to emphasize is this: It really pains a great many people to see full-page ads being taken now to sell U.S. savings bonds to the small investor, the low-income person, to sell him

through payroll deductions—and these are the patriotic people of the United States—the 4.15-percent U.S. savings bond—investments, while we are now trying to legislate something that is just going to provide a tremendous profit for those who already have large incomes and fine assets.

Actually, this proposal just provides a minimum of 5.5 percent. There is no ceiling on what can be paid through the use of this participation device.

This amendment points out how completely unfair this proposed legislation is with respect to the small investor, the average American citizen. I think this is a good amendment. I hope it will pass.

The CHAIRMAN. The Chair recognizes the gentleman from Texas [Mr. PATMAN] to close the debate on the pending amendment.

Mr. PATMAN. Mr. Chairman, I cannot understand why our friends on the minority side would make such an attack on a proposal that they have supported in the past. I had the record here yesterday and the day before yesterday, showing conclusively that they have supported the same proposal without any restrictions or limitations of any kind.

All at once they have converted themselves into a wrecking crew for the purpose of trying to wreck this bill. This bill is for a good purpose and to help good people.

I agree with what has been said by Mr. MULTER and others here. If we accept the Fino amendment we would reduce participation certificates down to \$100.

I do not know what it will lead to. One thing it will do. It will drain money out of savings and loans, if that is what the gentlemen want to do. It will lend itself to doing that.

I believe enough has been done to the savings and loans, without Congress legislating such a destructive effect here against them.

The Fino amendment is very bad. It should not be permitted. I fear it would in effect kill the bill, because it is not possible to administer a bill which is so restricted and limited.

The Ottinger amendment would provide at least \$15,000 as the amount. Of course, this bill is patterned for the purpose of attracting large investors, pension funds and insurance funds, so as to keep them out of competition in the housing market and in the savings and loan investments.

If the Fino amendment is adopted or if the Ottinger amendment is adopted, this would clearly change the objectives and the purposes of the bill.

We want this bill operated in the public interest. Leave it to honest, dedicated public officials to do what is in the public interest. We must not put them in a straitjacket. We must not make it impossible for them to perform their duties in the public interest.

I believe it has been operated satisfactorily in the past and I believe it will be operated satisfactorily in the future.

This is a good bill. We have been working on it. The proposal has been

around here for more than 20 years, beginning with the Export-Import Bank in 1945. That was adopted unanimously both by the House and the Senate.

Later an amendment was adopted unanimously by the House and the Senate to allow the participation certificates to be sold.

Then in 1964 the Housing Act—adopted by the Republicans—advocated exactly this kind of proposal.

Now the Democrats are in power. They say it was good under the Republicans, and they were all for it, but under the Democrats they are all against it.

What is all this fuss about? I hope each one of these amendments will be voted down.

The CHAIRMAN. All time has expired.

The question is on the amendment offered by the gentleman from New York [Mr. OTTINGER] to the amendment offered by the gentleman from New York [Mr. FINO].

The amendment to the amendment was rejected.

The CHAIRMAN. The question is on the amendment offered by the gentleman from New York [Mr. FINO].

Mr. FINO. Mr. Chairman, I demand tellers.

Tellers were ordered, and the Chairman appointed as tellers Mr. FINO and Mr. MULTER.

The Committee divided and the tellers reported that there were—ayes 98, noes 136.

So the amendment was rejected.

AMENDMENT OFFERED BY MR. WIDNALL

Mr. WIDNALL. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. WIDNALL: On page 7, insert the following immediately after line 6:

“(6) All beneficial interests and participations issued pursuant to this subsection after the enactment of this paragraph shall be obligations guaranteed as to principal and interest by the United States.”

Mr. PATMAN. A point of order, Mr. Chairman.

The CHAIRMAN. The gentleman will state his point of order.

Mr. PATMAN. Mr. Chairman, I make the point of order that the gentleman from New Jersey is trying to change the national debt limit, which, of course, is obviously not in order. The national debt limit is not before the Congress in this bill, or the public debt limit, rather.

The CHAIRMAN. Does the gentleman from New Jersey [Mr. WIDNALL] desire to be heard on the point of order?

Mr. WIDNALL. Mr. Chairman, this amendment does not in any way affect the national debt limit. The amendment I propose will make it crystal clear that any participations sold after date of enactment of this act will be guaranteed as to principal and interest by the United States.

It could be predicted, with assurance, that this clear-cut amendment will improve the marketability of participations to be sold and will reduce the cost of such financing relative to outright Treasury financing.

Mr. Chairman, the claim has been made that participations are in effect guaranteed by the United States, even though the FNMA prospectus states on the face thereof, “The participation certificates are not obligations of and are not guaranteed by the United States.” This fact may be verified by reference to the copy of the last FNMA prospectus which I put in the RECORD of May 9, pages 9950 through 9953.

Mr. Chairman, I believe this is a completely germane amendment to the bill and does not propose to do what the gentleman from Texas [Mr. PATMAN] says it would do, if adopted.

Mr. PATMAN. Mr. Chairman, the law is very plain, I believe, as to what shall be included in the public debt. It does not include this. This is an effort to change the provisions relating to what is included in the public debt.

As I understand it, the law is that certain obligations of the Government are not included and are not intended to be included. We may take, for instance, Federal Reserve notes that are obligations of the United States just as much so as a Government bond. The only difference is that they do not provide for an interest payment. They have \$33 billion in Federal Reserve notes outstanding today. However, they are not included in the public debt. The same thing is true on bonds. The bonds that are not cashed, the U.S. Government bonds, Treasury bonds, that are not presented for payment and are paid at maturity, they are taken away from the public debt, because they are not interest-bearing obligations of the U.S. Government.

Mr. Chairman, this is an attempt to change the law relating to the public debt in a bill that does not contain the subject matter now pending before the House.

Mr. Chairman, I insist that the point of order is good.

The CHAIRMAN (Mr. KEOGH). The Chair is ready to rule.

In the opinion of the Chair, the language of the pending amendment would be germane to the pending bill and the Chair overrules the point of order.

The Chair recognizes the gentleman from New Jersey [Mr. WIDNALL] for 5 minutes in support of his amendment.

Mr. WIDNALL. I thank the chairman.

Mr. Chairman, I would like to repeat what I just said before in speaking on the point of order, that one of the most troublesome points occurring repeatedly in such a discussion as the committee accorded the small business participation bill and the overall Participation Sales Act was the matter of the guarantee attaching to participations sold by FNMA.

The claim was made at that time that participations are, in effect, guaranteed by the United States, even though the FNMA prospectus states on the face thereof that “the participation certificates are not obligations of and are not guaranteed by the United States.”

This fact may be verified by reference to the copy of the last FNMA prospectus which I put into the RECORD on May the 9th.

Mr. Chairman, the amendment which I propose will make crystal clear that any participation sold after date of enactment of this act will be guaranteed as to principal and interest by the United States.

Mr. Chairman, it can be predicted with assurance that this clear-cut amendment will improve the marketability of participations to be sold and will reduce the cost of such financing relative to outright Treasury financing.

Mr. PATMAN. Mr. Chairman, I rise in opposition to the amendment.

Mr. Chairman, I have before me the code relating to the public debt limit. The code at chapter 12, section 75-7b provides that where an obligation is guaranteed as to principal and interest by the United States, it shall be a part of the public debt.

The amendment offered by the gentleman from New Jersey [Mr. WIDNALL] provides these obligations are guaranteed as to principal and interest by the United States—the exact language that is in the code.

Therefore, the amendment would provide that you would have to increase the national debt enough to provide for these obligations if they were sold.

Mr. Chairman, that is another way of defeating this legislation and rendering absolutely null and void the objectives and the intention of this legislation. I hope the amendment is defeated, and I ask for a vote.

Mr. MULTER. Mr. Chairman, I move to strike out the last word.

Mr. Chairman, it is not surprising that after all the charges of deception and concealment and sleight of hand and gimmickry, that we are getting these amendments that are coming from the Republican side of the aisle.

What they are seeking to do by this amendment is to prevent the sale of these instruments unless and until you increase the debt limit. Because as must be very clear to anyone who knows anything about the subject matter, every obligation guaranteed by the U.S. Government is a part of the public debt. The law so requires.

When you reach the amount fixed as the limit of the public debt, you must stop selling Government obligations, direct or guaranteed.

The purpose of this amendment is that unless and until you do increase the amount of the debt limit, we will not be able to dispose of a single obligation or any interest in an obligation under the terms of this bill.

Mr. Chairman, this is just one more effort to gut the bill by indirection.

Mr. Chairman, I urge that this amendment be defeated.

Mr. CURTIS. Mr. Chairman, I move to strike out the last word.

Mr. Chairman, I would say to the gentleman from New Jersey, we are going to have to increase the debt ceiling anyway because it goes back to the permanent ceiling of about \$285 billion.

Under any circumstances, this House is going to have to face up to that issue. Far from being concealment, this amendment would be revealing one of the objectives hidden in the bill. One of the

points I said was properly made was that this was a sham presentation—as the bill is presently written. Because this is a method of trying to get out from under the debt ceiling as it relates to only a certain portion—although a substantial portion—of the Federal debt. This amendment is the honest way to approach it. This is not going to harm the bill one iota.

The Committee on Ways and Means is simply going to have to compute this additional amount in whatever recommendations we make for the debt ceiling—as I say, we will have to compute this additional amount. This is a more honest way to approach it and a direct way. I think it is a very appropriate amendment.

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. JONAS. I would merely add that the argument advanced by the gentleman from New York proves the point that was made throughout the debate yesterday that the effect of this bill will be to conceal the amount of obligations of the Federal Government. This is a borrowing proposition outside of the national debt, and the purpose of the amendment is to make a full disclosure to the American people of the fiscal condition of their Government.

Mr. CURTIS. I think the gentleman is absolutely right.

There are two ceiling imposed by law—one on the aggregate amount of the Federal debt—that is, that portion that is subject to this proposed amendment. The other is the ceiling on the interest charges on long-term bonds.

Now to be honest with the people, let us subject this new proposal to the provisions that this amendment would provide.

Mr. Chairman, I am in favor of the objective of substituting private money for public money here. But let us do it forthrightly and honestly. We have an increased interest rate to bear on this. This is a liability and an obligation against the full faith and credit of the United States.

Mr. MULTER. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from New York.

Mr. MULTER. I thank the gentleman for yielding. If I understand correctly, the gentleman says that by writing this amendment into the bill, it will make it crystal clear that the amount of whatever is sold pursuant to this bill, when it becomes law, will become part of the public debt and within the statutory limitation, and unless and until that is increased, we cannot go beyond it by a sale of these obligations.

Mr. CURTIS. That is correct. I also observe that the Ways and Means Committee will present to this House, or there will have to be presented, a proposed increase in the Federal debt. On June 30, I believe the date is, it will revert back to the permanent figure. So in our computations—and we are going to hold hearings—we would simply compute this additional amount in there.

Mr. MULTER. Mr. Chairman, will the gentleman yield further?

Mr. CURTIS. I yield to the gentleman from New York.

Mr. MULTER. What happens in the meantime if we want to sell obligations pursuant to this bill when it becomes law that would be in excess of the debt limit prior to the time you bring in the new bill?

Mr. CURTIS. Let me say to my good friend, do not be so hasty. We have all seen demonstrated what happens in the House with a poorly considered bill. Take the extra 30 days. You will not sell anything in that time. Use the time to get your ducks in order. That is my response. Let us lay off the haste and get into the deliberative process. Then we will end up with much better legislation, and we will be a lot more honest with the people of this country.

The CHAIRMAN. The question is on the amendment offered by the gentleman from New Jersey.

Mr. WIDNALL. Mr. Chairman, I demand tellers.

Tellers were ordered, and the Chairman appointed as tellers Mr. MULTER and Mr. WIDNALL.

The Committee divided, and the tellers reported that there were—ayes 90, noes 122.

So the amendment was rejected.

AMENDMENT OFFERED BY MR. JONAS

Mr. JONAS. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. JONAS: On Page 7, immediately after line 6, insert:

"(6) All of the funds received from the sale of beneficial interests or participations pursuant to this subsection shall be covered into the Treasury of the United States and shall not be used for operating expenses of the Government but shall be used to reduce the national debt."

Mr. JONAS. Mr. Chairman, I stated yesterday, during the general debate, that I favor the announced objective sought to be accomplished by this bill, namely, to transfer obligations from Government to private enterprise, to private investors.

I would even support a program to convert more Government-owned mortgages and debt instruments into the hands of the private investors of this country. No one could possibly be more in favor of doing that than am I.

My only objection to what this bill is intended to accomplish is that the proponents of the bill are proposing to use capital assets and convert them into cash, and use the cash to pay general operating expenses of the U.S. Government. That is that would follow if I had some stocks and bonds and, living beyond my means, spending more money than I earned in salary, I converted my stocks and bonds into cash and used the proceeds to help pay my household expenses at the end of the month.

That is not a sound way to operate a family. It is not a sound way to operate a business enterprise. It is not a sound way to operate a government, in my judgment.

The funds generated by this program should go to the Treasury and should not

be used to defray general operating expenses of the Government. They should be used to liquidate the national debt, because when these participation certificates are sold we shall be liquidating assets of the Federal Government. The proceeds should be applied against the obligations of the Government.

I wish the distinguished chairman of the Banking and Currency Committee would accept the amendment so that we can get along with the bill.

Mr. PATMAN. Mr. Chairman, I rise in opposition to the amendment.

The Appropriations Committee can lay down any terms it desires concerning the sale of these participation certificates, and it would have to be approved by the Congress. It would come back to us.

If we were to adopt the amendment offered by the gentleman from North Carolina, we would effectively stop and block and defeat the bill.

What would that do? This includes college housing, too. It involves education. It includes housing of various types.

This is for the farmers. The only way the farmer can get help in many sections of our Nation is to get the help from the Farmers Home Administration. The bankers are no longer patient enough with the small farm loans. They can deal with 1 person or 1 corporation and make more money than from 1,000 farmers. Consequently, it is almost impossible for a small farmer to get a loan throughout this country.

This would effectively stop the Farmers Home Administration from making farm loans.

In addition, Mr. Chairman, we have before us a proposition of whether we are willing to help the small towns. Some of them have practically dried up on the vine. Many of them are suffering because of a lack of proper facilities, including sanitation, sewer, water and things like that. The only way that thousands of communities throughout this Nation can get loans for those purposes, to help on their health programs, is through the Farmers Home Administration. This amendment would effectively defeat the purpose of the bill.

Therefore, my friends, I hope that we will not vote for an amendment which would defeat the purpose of the bill.

The veterans of this country depend upon loans which are made. If this bill is stopped, it will restrict if not scuttle entirely many loans the veterans otherwise would get for the interest, welfare, and benefit of the veterans. This would be against the veterans, and it would be against the small businessman.

I hope the amendment will be defeated.

Mr. CEDERBERG. Mr. Chairman, I move to strike the last word.

I recall so well recently two presidential campaigns in which the Democratic Party complained about the high interest rates of the Eisenhower administration, and I believe the gentleman from Texas was a part of those campaigns.

I have been reading over the Democratic platform. I notice the platform pledges itself to low interest rates.

I read another part of the platform, where it took credit for having stabilized the rates and said:

Immediately, in 1961, the Federal Housing Agency interest rate was cut from 5¾ percent to 5½ percent. It is now down to 5¼ percent.

I understand that now it has gone back up to 5¾ percent.

I should like to ask the gentleman from Texas if this bill is a repudiation of the Democratic platform.

Mr. PATMAN. No, it is not. Unfortunately, the Federal Reserve seized the monetary power in this country and defied the President of the United States.

Mr. CEDERBERG. What jurisdiction does the Federal Reserve have over this bill?

Mr. PATMAN. They have complete jurisdiction over interest rates. They seized this power. This bill has nothing to do with interest rates.

Mr. CEDERBERG. It what?

Mr. PATMAN. This bill will have to follow the market on interest rates whether they are high or whether they are low. The passage of this bill does not indicate a Member has voted for high interest rates or for low interest rates. It does not affect interest rates at all. We have to pay the market rate.

Mr. CEDERBERG. The platform of the gentleman's party took credit for cutting interest rates for the Federal Housing Administration from 5¾ to 5½ percent and down to 5¼ percent. You want to take credit for getting it down to 5¼ percent, but you blame the Federal Reserve for getting it back to 5¾ percent. How do you handle that situation?

Mr. PATMAN. The Eisenhower administration gave the Federal Reserve that power.

Mr. CEDERBERG. I am not talking about the Eisenhower administration. I am talking about the Johnson administration.

Mr. PATMAN. I know, but let me finish my sentence.

Mr. CEDERBERG. No. I just want to know about that.

Mr. PATMAN. I know, but the Eisenhower administration let the Federal Reserve have this seized power. It was the worst administration in the history of this Nation, and they permitted that.

Mr. CEDERBERG. Let me say to the gentleman I have listened to him with interest. He would be a match for Cassius Clay because he can certainly roll with the punches and always get back to somebody else's problems. How did it happen we went from 5¾ percent to 5¼?

Mr. PATMAN. If you will do a little listening instead of talking, I will tell you.

Mr. CEDERBERG. This is the Democratic platform. I have listened to the gentleman for 14 years and I have not learned anything yet.

Mr. PATMAN. I am afraid you did not listen.

Mr. CEDERBERG. And I do not expect to get it in a few minutes, but I will try.

Mr. PATMAN. The gentleman is talking, as he always does. He always does the talking.

Mr. CEDERBERG. I learned a little bit of this from the gentleman from Texas.

Mr. PATMAN. Approach it with an open mind instead of an open mouth.

Mr. CEDERBERG. This is your platform.

Mr. PATMAN. If you want to know, I can tell you, if you will just listen.

Mr. CEDERBERG. All right. You tell me.

Mr. PATMAN. And think, too, along with it.

Mr. CEDERBERG. All right.

Mr. PATMAN. You see, the Eisenhower administration, for the first time in history, let the Federal Reserve be recognized as independent from the elected representatives of the people; independent of Congress; independent of the executive; independent of everybody; a fourth branch of Government.

Mr. CEDERBERG. I disagree.

Mr. PATMAN. They have seized that power, and they raised interest rates last December 37½ percent just because they did that.

Mr. CEDERBERG. All right. Now let me talk just a little bit. This administration has been in power for 6 years. You have twice as many Members as the Republicans do in the House. The same goes for the Senate. Why do you not do something about changing this Federal Reserve? You have had 6 years and you have not done it yet.

Mr. PATMAN. We have had 6 years of prosperity and growth, the longest period in all history.

Mr. CEDERBERG. But with high interest rates and high draft calls. You have had 6 years and you are chairman of the Committee on Banking and Currency. You handle the Federal Reserve. Why do you not change it?

Mr. PATMAN. You had 8 years of Eisenhower.

Mr. CEDERBERG. Then why do you not change it? You have the votes.

Mr. PATMAN. You had the Federal Reserve take charge of interest rates. You cannot change it now because it takes a majority of the Congress, both the House and the Senate.

Mr. CEDERBERG. You have a 2 to 1 advantage here.

Mr. PATMAN. Oftentimes a few fellows can stop things. In a democracy there are a lot of people who can say no and make it stick.

Mr. CEDERBERG. Who is saying no to you on this one?

Mr. PATMAN. Why, you are.

The CHAIRMAN. The time of the gentleman has expired.

Mr. HANNA. Mr. Chairman, I move to strike the requisite number of words.

Mr. Chairman and Members of the House, we are arriving at the conclusion of the debate on this very important matter. I think many of us are grateful for that. All things must conclude, including the considerations of the House of Representatives. I should like to point out what we have been attempting to do

in this legislation is to bring some kind of reasonableness to the management of the debt of the United States. We are doing the thing which was not done by the administration when it was held by the Republicans.

Mr. Chairman, we are doing something that has been going on for the last 3 years—\$3.3 billion of participation certificates have already been sold under this program.

Now, Mr. Chairman, if things are in such dishevelment, if this is such an onerous program, why is not there an indictment brought against the \$3.3 billion portfolio already sold?

Mr. Chairman, it ought to be clear, if this program is going to raise interest rates, why has there not been a demonstration that the \$3.3 billion in participations already sold has had that effect. Where have the Republicans leveled against the existing program the accusation, "You raised the interest rates."

Mr. Chairman, who made that accusation? Nobody.

If there were other accusations saying that participations would have a contracting effect upon the programs which they are supposed to be serving, an indictment could be drawn and you could stab your finger, and say "That is where participation sales are delinquent."

Mr. Chairman, who made that accusation? Nobody.

Mr. Chairman, I will tell you what is going on. We have the administration, and, therefore, we have the responsibility.

In California, when I was in the legislature there, we had an argument like this that went on where the administration was trying to get a program and the opposition was fighting it on a political basis and using arguments against it for their election.

So I submitted to the statehouse members that I thought this was the situation like the West has always known, where the wagonmaster has to see the wagons over the pass and the Indians stay out in the boondocks and shoot at them. I said, "We certainly have to put up with a lot of arrows." One of my Republican friends got up and said, "The gentleman is probably correct," but I would say to him, "If we quit shooting the arrows, will you promise not to give us the lance?"

Mr. Chairman, I believe we have had a particular number of arrows that have been shot here on a political basis, but not one indictment has been made against this program that has \$3.3 billion behind it that is authorized, whether we pass this bill or not, nor criticism leveled against the \$1.9 billion authorized outside this bill for the next fiscal year. All we are asking you to do is to say that this is a good program and that it ought to be expanded.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. HANNA. This program should be expanded to include the \$2.8 billion.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. HANNA. It seems to me based upon its past experience and upon its former performance, it is well established and it should have our support.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield at that point?

Mr. HANNA. Therefore, I believe we should go on and do what a responsible administration should do and bring debt management to a true flexibility in dealing with these matters as the market dictates.

Mr. Chairman, I hope we will go forward and pass this bill.

Mr. WIDNALL. Mr. Chairman, will the gentleman yield?

Mr. HANNA. Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. The question is on the amendment offered by the gentleman from North Carolina [Mr. JONAS].

The question was taken and the Chair announced that the noes appeared to have it.

Mr. JONAS. Mr. Chairman, I dislike doing this, but I must demand tellers on this amendment.

Tellers were ordered and the Chairman appointed as tellers Mr. MULTER and Mr. JONAS.

The Committee divided, and the tellers reported that there were—ayes 101, noes 130.

So the amendment was rejected.

Mr. PATMAN. Mr. Chairman, if I may make a unanimous consent request before trying to come to some agreement as to limiting time for debate, I would first ask unanimous consent that the bill be considered as read and be open for amendment at any point and subject to points of order.

The CHAIRMAN. Is there objection to the request of the gentleman from Texas?

Mr. WIDNALL. Mr. Chairman, reserving the right to object, this would not preclude the offering of an amendment to the second section of the bill we have been debating?

Mr. PATMAN. My request would apply to the remainder of the bill.

The CHAIRMAN. We are about to pass on to the next section, section 3.

Mr. WIDNALL. Mr. Chairman, I intend to offer an amendment to the second section of the bill and, therefore, I object.

The CHAIRMAN. Objection is heard.

AMENDMENT OFFERED BY MR. WIDNALL

Mr. WIDNALL. Mr. Chairman, I offered an amendment.

The Clerk read as follows:

Amendment offered by Mr. WIDNALL: Page 4, line 9, strike the period and insert: “, and the trustor shall promptly pay such proceeds to the Secretary of the Treasury to be covered into the Treasury as miscellaneous receipts.”

The CHAIRMAN. The gentleman from New Jersey is recognized for 5 minutes.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. WIDNALL. I yield to the gentleman from Texas.

Mr. PATMAN. I believe the gentleman from New Jersey has two amendments and we have two. I understand that one of the amendments will be

agreed to. I wonder if we could agree to have a 30-minute limitation on those amendments, on all amendments thereto, and on the bill. I ask unanimous consent that we have such a limitation.

Mr. WIDNALL. Ten minutes on each amendment?

Mr. PATMAN. Ten minutes on each amendment.

The CHAIRMAN. Will the gentleman from Texas restate his request?

Mr. PATMAN. Mr. Chairman, I ask unanimous consent that on all the remaining amendments there be allowed 10 minutes for each, 5 minutes to those who are for the amendment and 5 minutes to those who are against the amendment, the maximum to be 30 minutes.

The CHAIRMAN. The gentleman from Texas asks unanimous consent that all debate on all amendments and the bill be limited, that debate on each amendment be limited to 10 minutes, and that the debate on the bill and all amendments thereto conclude in 30 minutes.

Mr. BYRNES of Wisconsin. Mr. Chairman, I object.

Mr. PATMAN. Suppose we make it 40 minutes. Would the gentleman be satisfied with that?

Mr. HALLECK. Mr. Chairman, a parliamentary inquiry.

The CHAIRMAN. The gentleman will state it.

Mr. HALLECK. The gentleman from Texas asked that the bill be considered as read. I do not know whether that request was acted upon or not.

The CHAIRMAN. Objection was heard on that request.

Mr. HALLECK. Mr. Chairman, a further parliamentary inquiry.

The CHAIRMAN. The gentleman will state it.

Mr. HALLECK. Under the Rules of the House, would it then be possible to limit debate unless the bill has been considered as read?

The CHAIRMAN. Under a unanimous-consent agreement it would be possible, and the Chair understands that the gentleman from Texas is trying to get an unanimous-consent agreement.

The gentleman from New Jersey has been recognized for 5 minutes in support of his pending amendment.

Mr. WIDNALL. Mr. Chairman, there is much confusion as to the use of proceeds which an agency receives from the sale of participations. This can be clarified by the amendment I proposed which directs the agency receiving the proceeds to promptly pay them into the Treasury as miscellaneous receipts.

When the agency made the loans initially funds were drawn from the Treasury for that purpose and the agency became indebted to the Treasury in the amount of funds drawn. It seems to me that when the agency is paid back in funds by “sale” of the loans through the participation device, that it is only proper to extinguish the agency’s liability to the Treasury on account of such loans by requiring the agency to pay its debt to the Treasury.

I urge the adoption of the amendment.

Earlier some mention was made about national debt to the effect that failure to pass this bill or the adoption of some

of the amendments would require raising the debt ceiling. I have in my hand a clipping from the AP ticker that just came across. It reads as follows:

The Treasury Department plans to ask Congress next week for another temporary boost in the debt ceiling.

The request this year is expected to be in the neighborhood of \$334 billion, an area which is almost certain to touch off renewed debate over rising debt, deficit financing and Federal spending.

Unless Congress acts—it never has failed to act in the past—the debt ceiling will automatically drop on July 1, the beginning of the fiscal 1967, to its permanent \$285 billion level.

The present 1-year temporary ceiling is \$328 billion. The Treasury feels it can manage the debt more efficiently if it has a little room between the actual debt and the ceiling.

The request is expected to be transmitted to the House Ways and Means Committee and the Senate Finance Committee on Monday.

It is truly about time that we faced up to the true fiscal situation in this country and the fact that we are not keeping our house in order. As a result, the continued increased appropriations and increased new programs being enacted by the Congress, and the pressures which have been created, have caused the necessity for a program that involves higher interest rates. Unless Congress is willing to call a halt to this, we are faced with a very serious situation within the country.

I urge the adoption of this amendment.

Mr. McCORMACK. Mr. Chairman, I move to strike the requisite number of words.

Mr. Chairman, the debate on this bill has been very interesting and stimulating, and at times there has been some humor, particularly when I heard, to my amazement, my good friend from New York refer to “fat cats”, which I thought was rather a slurring reference to most of the big contributors to the Republican Party.

In relation to the pending amendment, this is in effect the same amendment as that which was offered by the gentleman from North Carolina [Mr. JONAS] and which was defeated only a few minutes ago.

This amendment would have a serious adverse effect in the field of education, in the field of conservation.

Oh, how I hear these gentlemen from the rural districts speak in favor of and vote for the amendment when the effect of it will be adverse to the people of their district. It will have an adverse effect upon the veterans, it will have a disastrous effect in the field of agriculture, and right across the whole expenditure field of our Government. So when one vote for this he is voting for an amendment that is going to have a far-reaching adverse effect upon both the rural and the urban activities and the life of our country.

So let us not have any deception about the effect of these high-sounding phrases that I have been hearing my Republican friends utter today and utter for the past 38 years.

I heard them arguments against Social Security, I heard them against minimum wage, I heard them against agriculture,

and I heard them against all of the great bills of past years. There were arguments such as socialism, or States rights, and many other slogans.

They try to lick legislation by slogans. However, despite that, the only disturbing note is the fact that one of my dear friends on the Republican side—whose name I will not mention—injects into the debate the phrase “fat cats”. That not only referred to those who live in his own district, but also the big contributors, as I have said, of past years and of the present years and future years of our Republican friends and the Republican Party.

I do not blame them for taking the contributions, but I do blame them for slurring them in the House of Representatives.

This bill is not a new proposition. This basic type of asset sales program was used during the administration of President Eisenhower, to the advantage of our country.

It has received support during the Eisenhower, the Kennedy, and the Johnson administrations. It expands congressional control through the pooling of asset sales.

As well said by the gentleman from Florida [Mr. SIKES] “it will encourage the substitution of private credit for public credit in Federal lending programs.”

Reference has been made by the gentleman from Arkansas [Mr. MILLS] to the fact that the Export-Import Bank since 1962 has made sales of \$1.7 billion through participating sales of its loans.

The Federal National Mortgage Association, by reason of authority given by the Housing Act of 1964, sold about \$1.6 billion of participating certificates in pools of home mortgages made by the FHA and the Veterans' Administration.

This bill simply extends the method.

We know that about \$33 billion are now immobilized in our portfolio, and that four years ago it was about \$25.1 billion.

As the gentleman from Arkansas [Mr. MILLS], well said last Monday in a convincing speech:

The primary reason for this growth in the portfolio is that the market for individual loans under Federal credit programs is limited. Often this has the effect of driving up the price—expressed in the yield that the Government must guarantee to private investors in order to interest them in direct purchases. Beyond that, we have found that the market often simply does not exist for much of the loan paper we hold.

Those are the words of our distinguished friend and legislator, the Chairman of the Ways and Means Committee. I do not believe there is any sounder man on fiscal affairs in or out of the executive branch of Government than the gentleman from Arkansas [Mr. MILLS].

So I urge the passage of the bill. I urge the defeat of the pending amendment.

Mr. GERALD R. FORD. Mr. Chairman, I move to strike the requisite number of words.

Mr. Chairman, I believe that all of us thoroughly enjoy the observations and

comments of our distinguished Speaker any time he takes the well to discuss a pending amendment, legislation as a whole on even politics.

I believe it is proper to state, however, that he did not discuss the real merits of this particular amendment.

This amendment will provide for honesty—I emphasize honesty—in Federal budgeting. It will also provide for the proper control by our House committees of projects and programs over which they have jurisdiction. If we do not adopt this amendment, we will have difficulty in determining whether a budget is honest or inaccurate. Of course, if this amendment is not approved many of the committees of this House will lose proper control over the programs and projects coming before them for their observation and recommendation.

It is amazing to me that my Democratic friends across the aisle have almost to a man opposed amendments here on the floor of the House today that would give the small purchasers of Federal Government securities such as those proposed in this bill an opportunity to participate. The Members of the Democratic Party here today have vigorously opposed those amendments that would benefit small purchasers. They have helped, by their opposition, the big purchasers from the large metropolitan communities.

In addition, my Democratic friends have opposed a ceiling on interest rates. I was almost dumbfounded to note that they apparently favor a higher interest rate, contrary to their own Democratic platform of 1964.

And in addition they have fought hard and successfully to prevent competition in the marketplace in the sale of these participation certificates.

What is wrong with competition? Why can we not have open competitive bidding if these participation certificates are issued? Why should they go to one purchaser, obviously a large banker or combination of bankers? I do not understand the change of heart of my Democratic friends in the handling of this legislation and the problems involved.

Let me conclude with this observation. My good friend, the distinguished Speaker of the House, discussed past political proposals and political differences between Democrats and Republicans. I think it is appropriate to comment that in 1966 we will be in a turbulent political arena. We will be discussing some of the problems we are wrestling with here today. However, I think it is fair for us to point out to our good friends across the aisle right now that we have had higher debt as far as the Federal Government is concerned under this administration; we have had higher interest rates under this administration; we have had higher draft calls under President Johnson. Everything seems to be higher, including prices under this administration and this Democratic-dominated Congress. It is fair to point out, I think, that the Great Society is becoming the “High Society” and the American voters will take this hard fact

into consideration in this campaign between now and November.

Mr. PATMAN. Mr. Chairman, I ask unanimous consent that debate on this particular amendment and all amendments thereto close in 5 minutes with 2½ minutes reserved to the chairman.

The CHAIRMAN. Is there objection to the request of the gentleman from Texas?

There was no objection.

The CHAIRMAN. The gentleman from Texas [Mr. PATMAN] is recognized for 5 minutes to close debate.

Mr. PATMAN. Mr. Chairman, I will not use the 5 minutes. The gentleman from Michigan, the distinguished minority leader, reminded us of several facts that he considered are valid facts in connection with this bill that I do not consider are valid facts at all. The main point is that the majority party is trying to help certain groups in this country. We are trying to help the country by helping these groups. One such group is the small business people. This bill will help small business people. A vote against this bill will be a vote against the interests of small business in the United States. This bill is in the interests of small towns for facility loans, for water and sewage, and other similar purposes. A vote against this bill is a vote against helping these small towns. There is no other way to consider it. A vote against this bill is a vote against the veterans, because they are involved here, too. They would get tremendous benefits in the way of loans at low rates of interest if this bill is passed. A vote against this bill is a vote against college housing. It is a vote against loans for educational facilities. We think this bill is on the side of the poor people, the low-income groups, the middle-income groups, and in the interest of the country generally.

Mr. Chairman, I hope that this amendment which, as the Speaker stated, is another piece of the same amendment practically that was offered awhile ago by the gentleman from North Carolina and was defeated by what I consider to be a pretty sizable vote—I hope that this amendment is defeated.

Mr. Chairman, I ask for a vote.

The CHAIRMAN. The question is on the amendment offered by the gentleman from New Jersey [Mr. WIDNALL].

The amendment was rejected.

The CHAIRMAN. The Clerk will read. The Clerk read as follows:

SEC. 3. (a) Section 305(c) of the Federal National Mortgage Association Charter Act is amended by deleting “by \$450,000,000 on July 1, 1966,”.

(b) Section 401(d) of the Housing Act of 1950 is amended by deleting “1968:” immediately preceding the first proviso and by substituting therefor “1965, and 1967 and 1968:”.

SEC. 4. (a) Section 303(c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: “For the purpose of making payments into the fund established under section 305”.

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND"

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called "the fund") which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts.

"(b) (1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury."

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence "and (8)" and inserting in lieu thereof "(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)"; and by inserting in the fifth sentence after "title," the following: "section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,".

SEC. 6. Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

Mr. PATMAN (during reading of the bill). Mr. Chairman, I ask unanimous consent that the bill be considered as read and open to amendment at any point where we are dispensing with the reading thereof, and also subject to any point of order.

The CHAIRMAN. The gentleman from Texas asks unanimous consent that the remainder of the bill be considered as read and open to amendment at any point and subject to any point of order.

Is there objection to the request of the gentleman from Texas?

There was no objection.

AMENDMENT OFFERED BY MR. BOW

Mr. BOW. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. Bow: On page 8, following the period on line 4, add the following:

"A business-type budget for the fund shall be prepared, transmitted to the Congress, considered, and enacted in the manner prescribed by law (sections 102, 103, and 104 of the Government Corporation Control Act (31 U.S.C. 847-849) for wholly owned Government corporations."

(Mr. BOW asked and was given permission to revise and extend his remarks.)

Mr. BOW. Mr. Chairman, this amendment simply provides for the annual submission to Congress of a business-type budget with respect to the academic facilities revolving loan fund.

The business-type budget is presently utilized with respect to other revolving funds and to wholly owned Government corporations. While I think we could reasonably expect that the Department of Health, Education, and Welfare would voluntarily submit business-type budgets with respect to this revolving fund, we should make certain that such a practice will be followed. The amendment will do just that.

I am inclined to believe that the manager of the bill, the gentleman from Texas [Mr. PATMAN] would be agreeable to accepting this amendment. I say that because he offered and the House approved an identical amendment to the Small Business Administration bill, S. 2729, on March 31 when we were considering the establishment of two revolving funds for that agency.

At that time, the distinguished gentleman said:

Both of these amendments are minor and technical in nature and in no way change the intent or effect of the bill. The amendments have been cleared with the Bureau of the Budget, as well as the minority leadership of the Banking and Currency Committee.

The first portion of the amendments would merely make it clear that budget requirements and projections would still be handled through the Bureau of the Budget and would not come directly from SBA without consulting the Bureau of the Budget.

The second portion of the amendments would put SBA under the Government-owned Corporation Act so that the Appropriations Committee would still be able to review the funding of the agency every year.

Mr. Chairman, these amendments were carefully drawn with the support and help of the minority, and the Members on both sides agree to it. I do not believe there is any objection to it. I hope that it is adopted.

Mr. Chairman, this is a desirable amendment and I urge its adoption.

Mr. Chairman, yesterday during the debate on this bill, H.R. 14544, the gentleman from Texas [Mr. PATMAN] said that I had voted in 1964 for a proposal that was identical to this bill. Of course, the gentleman's statement was not correct. I want to set the record straight.

On August 19, 1964, the House approved by a vote of 310 yeas to 70 nays an omnibus housing bill, S. 3049. I voted to approve the conference report

but I did not vote to approve anything identical to the provisions of this bill.

After the House had acted on the omnibus housing bill in 1964, the Senate added an amendment which would have permitted the Federal National Mortgage Association to sell beneficial interests or participations in respect to mortgages or interests therein held by Government agencies. The House conferees agreed to that Senate amendment with a House amendment which restricted the participation sales to first mortgages held by the Government.

The statement of the House managers with respect to the conference report—House Report No. 1828—reflects the following:

The Senate bill contained a provision not in the House amendment authorizing FNMA to sell beneficial interests or participations in respect to mortgages or interests therein held by Government agencies. The conference substitute contains the Senate provision with an amendment restricting its application to first mortgages held by the Government.

Sale of participations which was authorized by the housing bill of 1964 was quite different from the provisions of H.R. 14544, which are not restricted to first mortgage notes but which do permit budget expenditures of very substantial amounts to cover insufficiencies in interest and principal that will occur as a result of enactment of H.R. 14544.

The matter of participation sales was not considered by the House except for adoption of the conference report on the housing bill of 1964. When the bill went to conference, there were 66 items in disagreement among the plethora of provisions in the bill. Naturally, there were provisions in the final version of S. 3049 over which Members would have some reservation but there were also many desirable provisions which overshadowed the undesirable ones.

I make no apology for having voted for the conference report in 1964. If the gentleman from Texas [Mr. PATMAN] were sponsoring a sales participation bill today that permitted the pooling only of first mortgages in participation sales certificates, I do not think he would have encountered the opposition that has been expressed these last 3 days to H.R. 14544.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. BOW. I shall be delighted to yield to the gentleman from Texas.

Mr. PATMAN. Mr. Chairman, I feel that the gentleman from Ohio has a good amendment. It strengthens the language contained in the bill. Therefore, we are very glad to accept it, sir.

Mr. BOW. I thank the gentleman from Texas.

The CHAIRMAN. The question is on the amendment of the gentleman from Ohio [Mr. Bowl].

The amendment was agreed to.

AMENDMENT OFFERED BY MR. PATMAN

Mr. PATMAN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. PATMAN: On page 9, line 25, insert "(a)" immediately after "Sec. 6."

On page 10, insert immediately after line 3:

"(b) After June 30, 1966, no department or agency listed in section 302(c)(2) of the Federal National Mortgage Association Charter Act may sell any obligation held by it except as provided in section 302(c) of that Act, or as approved by the Secretary of the Treasury, except that this prohibition shall not apply to secondary market operations carried on by the Federal National Mortgage Association."

Mr. PATMAN. Mr. Chairman, in substance, the proposed amendment provides that after June 20, 1966, all sales of obligations by Federal departments and agencies as listed in section 302(c)(2), as just amended by the House, may make sales of obligations only by going the FNMA route. This amendment, in substance, is parallel to the amendment offered requiring that participation sales be made through FNMA. However, it should be noted that some of the agencies affected, such as the Small Business Administration, have under existing statutory authority the authority to make direct sales of obligations without establishing participation pools. I do not deem it advisable that this authority should be continued without the establishment of specific controls. In the first place, the amendment I have offered would prohibit the direct sale of assets by the SBA without the approval of the Secretary of the Treasury. I deem it essential that the Secretary of the Treasury have direct responsibility, being the chief fiscal officer of the United States, to approve and coordinate any direct sales by any department or agency having existing authority to make such sales. However, the primary thrust of the proposed amendment is to require that all affected sales of obligations would be made through the establishment of participation pools administered by FNMA and FNMA alone.

It is my view that if the participation sales program is to work, it will work best within a legislative framework providing for strict supervision and strict controls.

Believing that the amendment I have proposed will accomplish these ends; I urge its adoption by the House.

Mr. WIDNALL. Mr. Chairman, I rise in opposition to the amendment.

I hope that the very distinguished chairman of the Committee on Ways and Means is on the floor at the present time because I listened with great interest to his talk the other day when he spoke very forcefully against limiting direct sales by the Government agencies.

This proposal that has been offered by the chairman of our committee would absolutely prohibit direct sales unless approval is obtained from the Treasury of the United States. The agency itself would lose control of using this device for the disposition of assets.

I would ask the chairman, was this amendment cleared with the chairman of the Committee on Ways and Means?

Mr. PATMAN. Of course, it is not under the jurisdiction of the Committee on Ways and Means. But I will state to the gentleman, and I know about the gentleman's strong beliefs on these matters, I have worked with him for years. But the limitation on the Secretary of the Treasury and having him approve of the making of direct sales is for the purpose of coordination only.

We have had all kinds of testimony—testimony of different agencies selling at the same time in competition and thus destroying the market and making us pay higher rates of interest. So in the interest of orderly procedure and coordination, we are offering this amendment so as to compel all of them to clear through the Secretary of the Treasury and the Secretary of the Treasury is the only one that they should have to clear through. The Secretary of the Treasury can give the authority to do this in the public interest.

I hope the gentleman will not oppose the amendment.

Mr. WIDNALL. The budget this year provides for \$500 million of direct sales by the agencies. This would violate the budget and it would require approval by the Treasury before any of these sales could be made.

Mr. PATMAN. The gentleman knows and I know that the Secretary of the Treasury is going to approve any sale that the Director of the Budget, who is a part of the office administered by the Secretary of the Treasury, approves.

I believe this would be a safe procedure and I hope the gentleman will see our viewpoint and support it.

Mr. WIDNALL. May I just ask this question. Why is it needed?

Mr. PATMAN. It is needed to keep from having confusion with all of these different agencies going into the market at the same time without any coordination and thereby destroying the market and making us all pay higher interest rates.

Mr. WIDNALL. Mr. Chairman, in closing I would like to point out that this is just another example of what should have been done in the committee, if there had been proper committee consideration in full hearings and if the committee had been really able to work its will.

I regret very much today that it has been necessary on the floor of the House to spend so much time on these amendments to try to improve a bill which the members of the committee had no opportunity to study properly in committee.

Mr. Chairman, I feel this is a good amendment and it should be adopted.

Mr. BYRNES of Wisconsin. Mr. Chairman, I move to strike out the last word.

Mr. Chairman, I rise in support of the amendment.

I would like, Mr. Chairman, to recite a little history in this field of the sale of Government-held mortgages and credit instruments.

It is true that this matter of converting these instruments into cash was started during the Eisenhower administration. I would take issue, however, with the Speaker when he states that the concept of borrowing money through the sale of participation certificates was engaged in during that period, because it certainly was not—and they cannot point to a single instance of it. There is a big distinction between outright sale of obligations and borrowing on participation certificates.

Back in 1963, when the debt ceiling legislation was before the Committee on Ways and Means, we on the minority

urged and encouraged the administration to sell some of the debt instruments and credit instruments held by the Government, in order to have the cash and thus not have to borrow as much for purposes of the public debt.

At that time we suggested that not enough effort was being made to make such sales.

Let me first say that what we were talking about was actual sales—the transfer of title. The program that is proposed here today has nothing whatever to do with sales. It is simply another method of borrowing money, and all you have to do is look at one of these certificates of participation and you will see that it is a promissory note by the U.S. Government, due at the date in the future, with an interest rate.

Now, that is not a sale.

What we suggested at that time was that a greater effort should be made for an actual sale, disposition, and conversion to cash of these assets that were held by the Government.

It is interesting to note that at that time the Director of the Bureau of the Budget, Mr. Gordon, supplied some information to the Ways and Means Committee about some of the dangers that were involved in moving too fast in this area. I am going to put his full explanation and statement on the sales and salability of financial assets of the Federal Government that was presented to the committee at that time into the RECORD when we get into the House. I will ask to include it in my remarks, because I think it is pertinent and I think it is interesting.

But let me read a couple of paragraphs from this letter. First, Mr. Gordon said:

However, large sales of specialized assets (that is, mortgages) can absorb funds and raise interest rates in a particular market. The housing market is particularly sensitive to changes in interest rates and the availability of funds. Federal assets sales must be carefully planned to avoid depressing mortgage prices and contributing to an undesirable reduction in housing construction.

And yet you are planning here an almost indiscriminate borrowing on the basis of these participation certificates. I caution you against an indiscriminate use even of the borrowing process in this instance. I think it is essential that direct sales be coordinated, and I approve that amendment, as I understand it, and the purpose of the amendment, offered by the Chairman of the Committee on Banking and Currency.

But let me go further with another caution of Mr. Gordon, the Director of the Bureau of the Budget, back in 1963. He said:

Attempting to sell too large a volume of assets too quickly would depress the price of the assets; in consequence, the Government would suffer capital losses which could have been avoided by a more careful paced sales program.

He said also:

In some cases, that is, college housing loans, a careful program of Government sales can build up private investor interest in particular types of obligations and lead in future years to a reduced need for Government direct loans.

But listen to this:

However, a crash program of sales at heavy discounts, might simply postpone the day when the private market would be willing to absorb these loans at reasonable prices, and might also make it more difficult for colleges and universities currently to float dormitory loans in the private market.

The CHAIRMAN. The time of the gentleman from Wisconsin has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I hate to do this, but I ask unanimous consent that I may proceed for 2 additional minutes.

The CHAIRMAN. Without objection, the gentleman from Wisconsin will be recognized for 3 additional minutes.

There was no objection.

Mr. BYRNES of Wisconsin. What is proposed here by this participation gimmick is the wholesale putting on the market of certificates and borrowings and promissory notes. By passing this legislation you are flying in the face of these warnings given to us by the former Director of the Bureau of the Budget, Mr. Gordon.

Next Monday, we will have before us in the Ways and Means Committee, and there will be before the Congress very shortly, legislation to increase the debt ceiling. That ceiling today is at \$285 billion as a permanent ceiling and \$328 billion as a temporary ceiling. We had notice on the wire today that the Secretary of the Treasury will ask that that ceiling be raised to \$334 billion.

Let us suggest this to you: By the passage of this bill you will make the debt ceiling a completely meaningless thing.

This bill provides authority to go out and borrow money by the billions, because you have talked about our \$30 billion of assets that could be put into pools to "sell"—I put that in quotes—to borrow money again. I assume we will be borrowing money in keeping with the total amount of the assets put into the pool.

If we pass this bill, we make the debt ceiling meaningless. If we do that, let me suggest to the Members that it will come with very ill grace to those of us on this side when they express concern about the need to increase this debt ceiling and ask our help.

Why should we be of any help in increasing a debt ceiling that is made meaningless by the action which may be taken today?

I insert here the statement of Budget Director Gordon referred to above:

STATEMENT ON SALES AND SALABILITY OF FINANCIAL ASSETS OF FEDERAL GOVERNMENT

(Prepared at request of the chairman of House Committee on Ways and Means)

On June 30, 1963, the Federal Government will hold an estimated \$30 billion in direct loans, mortgages, and other financial assets. In most cases the interest rates or other characteristics of these loans make them unsuitable for sale to private lenders. Indeed, had private credit been available to the borrowers on terms as attractive as those offered under the various Government lending programs, in almost every case the loans would not have been made by the Federal Government.

Nevertheless, some portions of this portfolio are appropriate candidates for a carefully planned program of sales. Substantial sales of assets are, indeed, provided for in the

President's 1964 budget—\$926 million in fiscal 1963 and \$1,846 million in fiscal 1964. Table I lists these sales by type of asset. In addition, the 1964 budget reflects proposals for—

(a) Administrative action to obtain federally insured private financing estimated at \$280 million on resales of acquired properties by the Federal Housing Administration, thus avoiding corresponding budget expenditures; and

(b) Legislation to permit substitution of federally insured loans for a large part of the direct Federal loans now made for rural housing by the Farmers Home Administration; if authorized by the Congress, this insurance program will permit a reduction of about \$80 million in direct Federal outlays in fiscal 1964 relative to 1963.

Table II classifies the various loans and mortgages held by the Federal Government into a number of categories, on the basis of the factors affecting their salability, and provides brief descriptions of the relevant characteristics of the loans. For the reasons noted in the table, and discussed further below, the loans and mortgages in the first four categories of table II, totaling \$22.6 billion, are generally not appropriate for sale. The remaining major portfolios—totaling some \$7.3 billion, contain many loans or mortgages which do lend themselves to a planned program of disposal, a program which is now being carried out. As the table indicates, however, these portfolios also contain a large volume of loans which are not suitable for sale, or which could be sold only at large discounts. There are valid reasons to pursue a planned program of asset sales—substituting, where appropriate, private for public credit. There are equally compelling reasons to avoid a crash effort to unload Government-held securities on the market.

1. Funds acquired through sales of federally held credit instruments reduce the amount of Treasury securities which would otherwise have to be issued. Hence the overall impact of such sales is to a large extent offset. However, large sales of specialized assets—e.g., mortgages—can absorb funds and raise interest rates in a particular market. The housing market is particularly sensitive to changes in interest rates and the availability of funds. Federal asset sales must be carefully planned to avoid depressing mortgage prices and contributing to an undesirable reduction in housing construction.

2. Attempting to sell too large a volume of assets too quickly would depress the price of the assets; in consequence, the Government would suffer capital losses which could have been avoided by a more carefully paced sales program.

3. Sound policy requires that the prices at which comparable mortgages are offered for sale by different Government agencies be substantially the same. The Government cannot be in the position of having one agency undercutting the prices of another. The schedule of sale prices established by the Federal National Mortgage Association (FNMA) for its secondary market (trust fund) operations is used as the basis for sales prices on other Government mortgages. This schedule reflects the range of current market prices. "Cut-rate" sales of Government mortgages below these prices would violate the rule of "similar prices for similar assets" and tend to depress mortgage prices in general.

4. In some cases—e.g., college housing loans—a careful program of Government sales can build up private investor interest in the particular types of obligations, and lead, in future years, to a reduced need for Government direct loans. However, a crash program of sales, at heavy discounts, might simply postpone the day when the private market would be willing to absorb these loans at reasonable prices, and might also

make it more difficult for colleges and universities currently to float dormitory loans in the private market.

The asset sales program for the fiscal years 1963 and 1964 takes these various considerations into account. If the demand for loans and mortgages is larger than expected when the budget was formulated, additional sales will be possible on the same price and yield basis as previously assumed. In recent weeks there have been some indications of improvement in the mortgage market; if this improvement persists, fiscal 1963 sales of financial assets will probably exceed the estimates in the budget submitted last January.

MAJOR CATEGORIES OF FEDERAL FINANCIAL ASSETS

The various major types of Federal financial assets are listed with brief comments in table II. The following brief discussion is based on that table.

1. *Some classes of financial assets cannot or should not be sold (\$10.9 billion).*—A large volume of Government financial assets represent loans whose very nature makes them largely unsuitable for sale to private lenders. Some loans in this category are repayable in "soft" foreign currencies, some bear little or no interest, some are owed by countries with current financial problems, etc. The marginal comments in the table indicate the particular characteristics which would prevent the sale of such assets in the private market.

2. *In some programs legislation would be needed to allow sales, to allow sales below par, or to provide the guarantees necessary to make sales feasible (\$7 billion).*—In some cases present law does not allow the sale of loans, e.g., rural electrification loans, and rural housing mortgages held by the Farmers' Home Administration. In other cases, current legislation does not permit sales below par, and the loans held bear interest rates such that below-par prices would be necessary for sale, e.g., most of the direct mortgage loans held by the Veterans' Administration. In still other cases, legislation would be required to enable the Government to insure or guarantee the loans; without such insurance the loans probably would not be attractive to private lenders, e.g., ship construction loans of the Maritime Administration. Even if appropriate legislation were passed, including authority to provide insurance or guarantees, most loans in this category are of such quality or carry such interest rates as to require large discounts. However, some sales might be possible at reasonable discounts.

3. *Some classes of assets, otherwise salable, carry low interest rates or are not of investment quality. Sizable discounts below par would be required (\$3.1 billion).*—The fact that an asset must be sold at a discount is not, in itself, a sufficient reason to preclude its sale. Where, for purposes of public policy, loans have been made by the Federal Government at interest rates and terms substantially more favorable than those available in the private market, a large discount would have to be accepted in order to dispose of the assets. In many cases, sales of assets to the private sector can contribute to the development of private interest in unfamiliar types of credit instruments, leading to the eventual establishment of reasonable private rates and terms. In such cases, it might be appropriate to accept a substantial discount on the initial offerings, as the price of creating a new market for the particular credit instruments involved. Further, the existence of a discount which simply reflects the fact that the level of interest rates has risen since the loan was acquired should be no bar to the sale of the assets involved. However, when the discount reflects an important difference between the market and the Government in the evaluation of risk qualities, as often happens, there is reason to avoid liquidating such assets. The public's interest is better served by concentrat-

ing an asset sales program in those portfolios whose assets are familiar and desirable to private lending institutions. In this way, the prices received by the Government for a given volume of asset sales are likely to be maximized.

4. *In one case, sales of certificates against a pool of assets are a continuing practice, but an increase in sales would involve significant interest costs to the Government (\$1.5 billion).*—Loans against crops are a major instrument of the Commodity Credit Corporation's price support program. Certificates of interest in a pool of these loans are sold to individual banks at interest rates (currently 3 percent) slightly higher than the Treasury bill rate. The \$1,471 million in table II for this category represents the amount of CCC loans against which, it is estimated, there will be no certificates outstanding on June 30, 1963. It would be possible to sell certificates against these remaining loans by offering a higher interest rate. Since the bulk of these certificates are redeemable on demand by the banks, it would also be necessary to raise the interest rate on \$1 billion of certificates outstanding. The additional one-half of 1 percent interest which would probably be required to sell the additional certificates equal to most of the \$1,471 million of loans carried by CCC would

cost the Government an extra \$12 million per year.

5. *In the case of the Export-Import Bank (\$3.5 billion) sale of participations in a pool of loans is planned.*—The Export-Import Bank is assembling a pool of loans against which participations will be sold to private lenders. A pool of adequate size with interest rates, maturities, and capital repayment schedules consistent with the terms of the participation agreement must be assembled. To assure that the Government obtains appropriate terms, careful preplanning and surveying of the private credit market is necessary. In order to make the sale desirable from the Government's point of view, the size of the offering should be substantial.

Of the \$3.5 billion of loans which the Export-Import Bank is estimated to hold as of June 30, 1963, a substantial volume is not suitable for inclusion in a pool because of low interest rates, or unsuitable capital repayment schedules. Further, the capacity of the private capital market to absorb this particular type of credit must be considered in determining the magnitude of any sales program.

6. *Some other classes of assets contain significant amounts of readily salable paper (\$3.8 billion).*—The portfolios in this category contain assets which are most suitable for sales. At present mortgage prices, a large

proportion of these assets would be priced at a discount. Moreover, a substantial increase in mortgage sales beyond the amounts now contemplated (see table I) would almost certainly require that prices be lowered. The amount of sales which will be possible without a reduction in prices and a depressing effect on the housing credit market will depend upon conditions in the money markets generally and the mortgage market in particular. In addition, further evaluation of individual mortgages by quality, geographic location, etc., will be necessary to determine how many can, in fact, be sold at or near the prevailing market prices for new mortgages.

The college housing loans to public institutions held by the Community Facilities Administration represent a wide range of quality and interest rates. We plan to sell \$50 million of these loans and we expect they can be disposed of in the near future at advantageous terms. We are currently exploring various possible methods to increase the salability of these loans. A hurried disposal program, however, would almost surely prevent the Government from obtaining the best terms and prejudice the chances for the best development of this prospective market, as well as disrupting the modest continuing private market for housing bonds of public universities and colleges.

TABLE I.—Sale of financial assets in fiscal years 1963 and 1964 estimated in 1964 budget

[In millions of dollars]

Agency and program	Sales in fiscal 1963 ¹	Sales in fiscal 1964 ¹
Department of Agriculture: Commodity Credit Corporation	2 639	2 825
Housing and Home Finance Agency: Community Facilities Administration, college housing loans to public institutions		50
Federal National Mortgage Association:		
Special assistance functions	50	199
Management and liquidating functions	6	
Federal Housing Administration		60
Veterans' Administration:		
Direct loan program	18	18
Loan guarantee program (vendee loans)	150	147
Export-Import Bank of Washington	60	540
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation loans	3	
Small Business Administration		7
Total	926	1,846

¹ Sales estimates exclude (a) amortization, (b) prepayments, (c) sales made as part of the process of insuring loans, and (d) sales to FNMA.

² Excess of certificates issued (sales) over redemption of certificates issued during the year (excluding redemption of prior-year certificates).

TABLE II.—Sales and salability of financial assets

[In millions of dollars]

Agency and program	Outstanding direct loans, June 30, 1963 (estimated in 1964 budget)	Remarks on salability
1. Some classes of financial assets cannot or should not be sold:		
Department of Defense: Military assistance credits	198	These instruments are nonnegotiable and bear interest rates ranging from 0 to 3½ percent. Federal contributions repayable only after 1969 (later, under proposed legislation). Repayable portion of contribution cannot be determined in advance. If student borrower becomes teacher, a portion of capital and interest repayments are "forgiven."
Department of Health, Education, and Welfare: Defense education loans	294	
Department of the Interior: Bureau of Reclamation loans	74	Most loans are noninterest bearing. 1948 headquarters loan is noninterest bearing. Total original 1962 bond issue not yet fully sold making U.S. sale inappropriate. Repayment to United States to be in form of reductions in future U.S. contributions to U.N.
Department of State: Loans to United Nations	141	
Agency for International Development loans	6,202	About ½ of this total is repayable in dollars, of which about half is owed by European countries—mainly 2½ percent, 35-year loans. Other loans (1) are repayable in local currencies; (2) have low interest rates (e.g., ¾ percent) and/or (3) are owed by countries with current financial problems. Where debtor's balance-of-payments permits, Treasury is pressing for prepayment and sales might adversely affect efforts to close gap in balance of payments.
Treasury Department:		
Loan to United Kingdom	3,205	Sale would require modification of loan agreement. Interest rate only 2 percent. (Actual balance now \$55,000,000 due to a prepayment.) Remainder not salable due to default, interest payment deferment, or present efforts to refinance privately.
Defense production loans	118	
Housing and Home Finance Agency:		
Community Facilities Administration: Miscellaneous programs	121	Consists mainly of long-term low-interest-rate loans, interest-free advances, and liquidating programs. No reasonable prospects for sale even at substantial discounts. Mortgage and note payments already in arrears; many have relatively low interest rates
Federal Housing Administration: Assigned mortgages and defaulted home improvement notes	300	
Urban Renewal Administration	153	Bulk of loans made only when local questions preclude private bond counsel from approving loans for private investment, hence not salable. Short-term notes are initially too small for economical private financing; long-term bond sales subject to difficult administrative or legal problems.
Public Housing Administration	91	
Federal Home Loan Bank Board: Federal Savings and Loan Insurance Corporation loans	35	Mainly conventional home mortgages acquired in settlement of loans to associations; most are now subject to legal questions, but are ultimately salable in future years.
Subtotal	10,932	

TABLE II.—Sales and salability of financial assets—Continued

[In millions of dollars]

Agency and program	Outstanding direct loans, June 30, 1963 (estimated in 1964 budget)	Remarks on salability
2. In some programs legislation would be needed to allow sales, to allow sales below par, or to provide the guarantees necessary to make sales feasible:		
Department of Agriculture:		
Rural Electrification Administration.....	3,720	Legislation required for sale; very large discounts required due to 2-percent interest rate.
Farmers Home Administration.....	1,572	Legislation required for most assets to allow sale and to permit guarantees; large discounts likely on major portions.
Department of Commerce:		
Area Redevelopment Administration.....	29	Legislation required, probably including a guarantee of commercial and industrial loans against default; large discounts likely due to interest rates and residual risks.
Maritime Administration.....	110	Legislation required for a guarantee against default; large discount likely due to interest rate (3½ percent).
Treasury Department:		
Loans to District of Columbia.....	122	Legislation required for sale; discount not likely due to Federal tax exemption, but sale of assets carrying tax exemption would involve some cost to Treasury.
Veterans' Administration; District loan program.....	1,475	Legislation required for sales below par. Over half of portfolio at 4¼ percent or less, and most loans are in rural areas. This substantial discounts would be involved.
Subtotal.....	7,028	
3. Some classes of assets, otherwise salable, carry low interest rates or are not of investment quality. Sizable discounts below par would be required:		
General Services Administration:		
Sales credit.....	128	Much of portfolio would require large discounts because of below-market interest rates.
Public power bonds.....	61	Unsecured revenue bonds, not backed by credit of the States involved. Would require very large discount due mainly to 2½-percent interest rate.
Housing and Home Finance Agency:		
Federal National Mortgage Association:		
Management and liquidating functions.....	1,275	Discounts would range from 8 to 12 percent; larger on those (\$153,000,000) uninsured. Interest rates from 4 to 4½ percent. Also these are old relatively small mortgages and therefore less attractive to private lenders.
Community Facilities Administration:		
College housing loans to private institutions.....	785	Fully taxable; substantial discount required. Interest rates from 2¾ to 3½ percent.
Small Business Administration.....	894	SBA, in making loans, first attempts to secure private participation. Only a minor portion now in SBA portfolio are salable at par without extensive guarantee.
Subtotal.....	3,143	
4. In one case, sales of certificates against a pool of assets are a continuing practice, but an increase in sales would involve significant interest costs to the Government:		
Department of Agriculture; Commodity Credit Corporation.....	1,471	Present interest rate on certificates is 3 percent; to attain marked increase in private financing would entail higher rate for all certificates and put additional pressure on 1964 budget.
Subtotal.....	1,471	
5. In one case, sale of participations in a pool of Government loans is being arranged:		
Export-Import Bank of Washington.....	3,466	Sale of participations in a \$500,000,000 privately acceptable pool now planned. Sales of individual loans of \$60,000,000 estimated for 1963 and \$40,000,000 for 1964. Substantial volume of loans unsuitable for inclusion in pool due to interest rates or repayment schedules. Planned volume of participation sales must take into account capacity of market to absorb this type of credit.
Subtotal.....	3,466	
6. Some other classes of assets contain significant amounts of salable paper:		
Housing and Home Finance Agency:		
Community Facilities Administration:		
College housing loans to public institutions.....	782	Bulk of sales would require large discounts; however, some can and will be sold at or above par.
Public facility loans.....	134	Some are salable at par; most would require discounts.
Federal National Mortgage Association: Special assistance functions.....	2,102	Some can and will be sold at or above par; most would require varying discounts because of submarket interest rates, location and/or quality. Administrative and market problems also hamper rapid sales.
Federal Housing Administration: Excluding assigned mortgages and defaulted home improvement notes.....	350	Sizable amount salable at par or small discounts in 1964; administrative limitations prevent large 1963 expansion.
Veterans' Administration: Loan guarantee program (vendee loans).....	461	Additional sales possible only with reduction in prices (increased discounts) or improvement of market in areas where bulk of portfolio concentrated.
Subtotal.....	3,829	
Total.....	29,869	
Very small programs.....	113	
Grand total.....	29,982	

The CHAIRMAN. The question is on the amendment offered by the gentleman from Texas.

The amendment was agreed to.

COMMITTEE AMENDMENT

The CHAIRMAN. The Clerk will read the next committee amendment.

The Clerk read as follows:

Committee amendment: On page 10, line 4, insert the following:

"Sec. 7. Paragraph (7) of section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended to read:

"(7) to invest its funds (A) in loans exclusively to members; (B) in obligations of

the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Gov-

ernment corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee."

"Sec. 8. The Secretary of the Treasury, in consultation with heads of agencies of the United States carrying on direct loan pro-

grams, shall conduct a study, in such manner as he shall determine, on the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs and shall report his findings together with specific legislative proposals to the Congress not later than six months after the effective date of this Act. There are authorized to be appropriated such sums as necessary for the purpose of this section."

Mr. PATMAN (interrupting the reading). Mr. Chairman, I ask unanimous consent, since the amendment is well understood by both sides, that we dispense with further reading of the amendment.

The CHAIRMAN. Without objection, the amendment will be considered as read and printed in the RECORD.

There was no objection.

The CHAIRMAN. The question is on the committee amendment.

The committee amendment was agreed to.

AMENDMENT OFFERED BY Mr. PATMAN

Mr. PATMAN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. PATMAN: On page 11, immediately after line 16, add the following new section:

"SEC. 9. The Federal National Mortgage Association is authorized during the fiscal year 1966 to sell—

"(1) additional participations in the Government Mortgage Liquidation Trust, and

"(2) participations in a trust to be established by the Small Business Administration, each without regard to the provisions of paragraph (4) of section 302(c) of the Federal National Mortgage Association Charter Act."

Mr. PATMAN. Mr. Chairman, this amendment would accomplish two things. In the first instance, it is essential in that it would permit FNMA, during the current fiscal year, to continue its operations in selling additional participations in the Government mortgage liquidation trust. In other words, this amendment would merely preserve the existing authority of FNMA to carry on its activities through the end of the fiscal year.

In addition to the foregoing, this amendment would permit FNMA, during the current fiscal year, that is only up to and including June 30, 1966, to sell participations in a trust to be established by the Small Business Administration. Under existing statutory authority, the Small Business Administration has the authority to make direct sales of its obligations. In fact, not very long ago, the Small Business Administration sold \$110 million of such assets. However, that sale was not made from a participation pool administered by FNMA. As a consequence of which, the yields granted by the sale, that is the effective rate of return, were, in my view, excessive. This amendment is offered to cure that problem and still permit the Small Business Administration to move approximately \$350 million worth of its assets through participations to be sold by FNMA.

This legislation is needed if the small businessmen of the country are to have available to them urgently needed capital resources. This amendment would,

in substance, accomplish the purposes of a bill that has already passed the Senate and which was favorably reported to the House April 25, 1966. I refer to S. 2499, a bill to amend the Small Business Act to authorize the issuance and sale of participation interests in pools of loans held by SBA.

I believe that the proposed amendment here offered to H.R. 14544 will best and most efficiently accomplish that purpose, and I urge its adoption by the House.

(Mr. PATMAN asked and was given permission to revise and extend his remarks.)

Mr. WIDNALL. Mr. Chairman, we have no objection to the amendment.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Texas [Mr. PATMAN].

The amendment was agreed to.

Mr. JONAS. Mr. Chairman, I rise to make a point of order.

The CHAIRMAN. The gentleman will state his point of order.

Mr. JONAS. Mr. Chairman, I make a point of order against the language on page 8 of the bill, lines 5, 6, and 7 through the word "fund." The point is based upon my feeling that the language violates rule XXI, clause 4, of the Rules of the House of Representatives.

Mr. PATMAN. Mr. Chairman, I desire to be heard on the point of order.

The appropriations referred to are future appropriations authorized and to be made for the specific purpose of making the transfers here authorized. This is not a case of changing the object of past appropriations, and the point of order should be overruled.

That refers to section 303(c), which I have before me now. It provides:

For the purpose of making payments into the fund established under section 305, there is hereby authorized to be appropriated * * *

It is not making the appropriation; it is authorizing the appropriation.

I respectfully submit, Mr. Chairman, that this is not subject to the point of order.

The CHAIRMAN (Mr. KEOGH). The Chair is ready to rule.

The gentleman from North Carolina [Mr. JONAS] makes a point of order of order to the language appearing on page 8, lines 5 through 7, to the end of the sentence on that line, on the ground that it is in violation of rule XXI of the rules of the House of Representatives.

The Chair has examined the language and has listened attentively to the gentleman from Texas, but is of the opinion that since this language directs a transfer of available appropriations it is in fact in violation of rule XXI; and therefore sustains the point of order.

AMENDMENT OFFERED BY Mr. PATMAN

Mr. PATMAN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. PATMAN: On page 8, strike out lines 5 through 14, and insert the following:

"(b)(1) The Commissioner, when authorized by an appropriation Act, may transfer to the fund available appropriations provided

under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund."

Mr. OTTINGER. Mr. Chairman, I move to strike the requisite number of words.

Mr. Chairman, I have reluctantly decided to oppose this measure—reluctantly because I recognize the great need for funds for the Small Business Administration, the Veterans' Administration, and other important agencies. I hope and trust that the funds necessary for these agencies to continue their vital work will be provided by other means, and I will certainly support any reasonable and legitimate method of providing such funds.

I am opposing the Participation Sales Act of 1966 even though I voted to report it from the Banking and Currency Committee. I cast that vote in the mistaken belief that the issues raised by this legislation had been adequately considered in previous years and with respect to other participation sales programs, and that, therefore, full hearings were not needed. I now find that is not really the case and that there are many complex problems arising out of H.R. 14544 that should have been subject to full consideration in committee. Under these circumstances, I believe the committee was at fault in not hearing organizations and individuals who would like to have been heard and who should have been heard—whether in opposition to this bill or in favor of some modification of it.

We are living in a time of very tight money and very high interest rates. The burden of this credit shortage is at present distributed very unequally. Money has been siphoned out of the savings banks, the savings and loan associations, and the small commercial banks—away from the home buyer, the small borrower, and the small businessman—and into certificates of deposit which are issued at interest rates of 5½ percent and even higher by the large commercial banks for industrial credit.

The result has been disastrous for the building industry.

The small individual and business borrower cannot find money at his bank. The hardship on the average citizen is great, and it is becoming a more intolerable burden every day.

The home buyer cannot obtain a mortgage. In instance after instance, families are unable to afford to buy their dream house.

The full burden of high interest rates and tight credit is being borne by the little man, the average citizen, and the thrift institutions I mentioned earlier. Savings and loan associations are so tightly squeezed that most cannot make future commitments at all and many may have difficulty meeting withdrawals.

To authorize \$47 billion of participation certificates at this time, adding fur-

ther pressures on an already strained credit supply, and without raising the ceiling on the denominations of issue in order to protect the thrift institutions, may well be the straw that breaks the camel's back. The National Association of Home Builders has opposed this legislation on these grounds and with good reason.

I fear, Mr. Chairman, that passage of this bill without any protection for the thrift institutions and the people they serve will drain off what little money is left in their accounts. The result may even be the complete failure of some of these institutions.

And I hope our colleagues will also keep in mind that interest rates on participation certificates could well move up in the coming months from a high of 5½ percent in mid-March to a high of 6 percent in the not-too-distant future. Compare such interest rates with the low statutory interest rates on Federal direct loans, such as the 2 percent on REA loans and 3 percent on college housing loans. This spread is translated into a considerable cost to the Government and, of course, to the taxpayer.

Certainly, these important considerations, not involved in previous similar sales issued in times of very different credit conditions, should have had a complete airing before the Banking and Currency Committee. An opportunity should have been offered to at least hear the testimony of the struggling construction industry and the crippled thrift institutions which are so vitally affected by this legislation.

If the legislative process is to mean anything, it must mean a full and fair opportunity for those affected by legislation to be heard. We cannot and should not tolerate the kind of precipitous action which resulted in the Sales Participation Act being reported out of committee after less than 2½ hours of consideration.

I cannot, however, support the proposed motion to recommit the bill with instructions to limit the interest rate on participations to 4¼ percent. This is an irresponsible bit of demagoguery. It does not alleviate the problems I have raised, but rather is designed to kill the entire proposal with a show of concern for high interest rates. No certificates could be sold in today's market at the rate sought to be imposed by this motion. What is needed is a provision protecting the small borrower and home buyer, not this transparent bit of showmanship. High interest rates are not the subject of this legislation. The rates these certificates would carry only would reflect the currently high free market rates.

I therefore urge my colleagues to vote against the motion to recommit. At the same time, I urge them to vote against the bill on final passage.

(Mr. OTTINGER asked and was given permission to revise and extend his remarks.)

Mr. WIDNALL. Mr. Chairman, there is no opposition to the amendment.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Texas.

The amendment was agreed to.

Mr. WALKER of Mississippi. Mr. Chairman, we often hear of the depression of the thirties—and the stock market crash of 1929—which followed a period of high living and relatively high personal income.

Now, we are in the midst of what the Great Society administration has termed the most prosperous time in history. But the warning flags of recession are flying all around. The most evident warning of the shaky condition of the American economy is the present condition of the stock market.

Stock prices have had sharp drops, waves of selling have taken place, we have not yet experienced a "Black Friday" like that which took place in 1929, but there is nothing to prevent this from happening.

This body is currently considering legislation that in my estimation is typical of the irresponsible fiscal policies by this administration.

Without any consideration of opposing views, the administration railroaded this measure through committee with only 3 hours of hearings.

Not only do I oppose the way in which this bill was presented to Congress, but I oppose the measure itself. This bill is merely a way that the administration has devised to cover up its practice of deficit spending. Procedures such as this can lead our country into another depression.

On May 10, 1966, there appears an article by James J. Kilpatrick in the Washington Evening Star which stated the true purpose of this bill. I insert an excerpt from the article at this point in the RECORD:

NEW VERSION OF OLD SHELL GAME IS CHARGED
(By James J. Kilpatrick)

The slickest skin game of the old county fairs, at least in the gullible South, was the skin game known as the old shell game. It flourished for years, until some educated cops came along. They put the thimble-riggers on the run and the shell game all but disappeared.

Last week it came back to town. You will find it, if you look fast enough, in H.R. 14544, which came shooting out of the House Banking and Currency Committee like a little green pea under three walnut shells. This is President Johnson's sensational gimmick for turning \$4.2 billion in federal assets into \$4.2 billion in federal liabilities, all without adding a penny to the federal deficit. Or liabilities into assets. It is all the same thing. Come one, come all, and try your skill! The hand in truth is quicker than the eye.

Johnson sketched the general outlines of his "Sales Participation Act of 1966" back in January, but it wasn't until Wednesday, April 20, that the bill turned up in the House. Then presto! On Thursday, April 21, with the ink still wet on the printed bill, Rep. WRIGHT PATMAN, D-Texas, scheduled three hours of hearings. Only administration witnesses were called. By a party-line vote of 22-3, with eight disgusted Republicans not voting, the bill came bombing out. A classic committee report followed on April 25. And last week the White House was proceeding in terror to get the bill whipped through the Rules Committee for an immediate vote on the floor.

The situation has its funny aspects, which is doubtless part of the game.

On the surface, this is a financing scheme by which the government would "sell off

some assets." But the trick is that no assets would be really sold off.

The committee's majority report declares, deadpan, that the plan would "carry forward the objective of substituting private for public credit in funding the loan programs" of various federal agencies. But by its own terms, the bill provides for continued federal subsidies to make the private creditors secure.

The sponsors of this legislation are shouting from the housetops that this "participation" plan is truly nothing new—that it is in fact an old plan, devised by President Eisenhower in 1959. But when Eisenhower undertook to sell off some federal loans, he sold them off in straightforward transactions. Johnson's dazzling runaround is something else entirely.

Under terms of this legislation, the Federal National Mortgage Association, as trustee, would sell certificates of participation in "pools of assets" to be provided from the outstanding loans of various federal agencies. Up to \$4.2 billion in such certificates could be sold, provided the market would absorb them, and why shouldn't the market absorb them? These handsome instruments would cost the taxpayers a rate of 5.4 or 5.5 percent, at least half a point higher than the rate on regular Treasury borrowings.

As the outraged Republicans point out in their minority report, this .5 percent represents an expense of \$5 million a year on each \$1 billion of participations sold. If the entire authority were exercised, the cost to the people would approximate \$21 million a year. Over an average maturity of 10 years, these higher outlays for interest would amount to something in excess of \$200 million.

Yet the cost of this scheme is the least of the objections to it. The purpose of this legislation is not to promote private credit. The purpose is to conceal a \$4.2 billion deficit by entering the certificate sales as a "negative expenditure." Where has the deficit gone? It lies under the third shell on the left. If this maneuver works for 1967, we may never set eyes on a deficit again, for federal agencies have \$33 billion in such assets to slide in Fannie May's direction.

By the same token, as the Republicans remark, the federal debt limit can be subjected to hocus-pocus-dominocus. Now you see it, now you don't. If the proceeds of these participations are applied on paper to debt reduction, the government's total debt will not have been reduced in fact. The debt will simply have been transferred to the debt of FNMA, which is outside the statutory limit. In the course of this vanishing act, government credit would be used, if indirectly, to effect a reduction in the federal debt. This isn't done with dollars; it's done with mirrors.

Mr. VIVIAN. Mr. Chairman, I intend to vote against the Sales Participation Act before us today, because I believe that it has both a particular fault and an undesirable implication.

First, Mr. Chairman, the principal effect of this act will be to reduce the apparent national debt. By so doing, the budget for the year will appear more balanced and, thus, the American people will not clearly appreciate the true dollar cost of the war in Vietnam. Some seem to feel that the extra costs of the war are of little consequence. Such is not the case. The war costs over a billion dollars a month. These costs must be financed either with additional Federal loans, implying inflation, or by a reduction in major programs, or by significant additional taxes. We must face this fact objectively. The Sales Participation Act before us today tends to obscure this harsh reality.

Second, Mr. Chairman, I might have been more favorably inclined to vote for the bill if the amendment had passed which was proposed which would have required that all loans sold under the act be sold under competitive bids. I see no justification for not requiring competitive bidding on these issues and, therefore, I voted for the amendment; regrettably, it failed.

Mr. CLEVELAND. Mr. Chairman, I am certainly opposed to this bill, H.R. 14544 the Participation Sales Act of 1966.

This bill—incredibly—makes it possible for rich people to purchase Government securities bearing an interest-rate of 5.5 percent or more while the little man who buys U.S. savings bonds can get only 4.25 percent. The administration is limiting purchases to those of \$5,000 and over.

But the little man is going to have to furnish most of the taxes to pay the big boys their generous rate.

This legislation is wholly deceptive. It would not have come to us if the administration were able to manage its debt and budget policies properly.

Present law sets a limit of 4.25 percent interest that the Government may pay on its ordinary securities. In the terms of today's money markets and the interest rates being paid there, this is an unrealistic level, far below the rates being paid commercially. Naturally the Government is having a hard time marketing its securities.

But rather than come to Congress in a straightforward manner and seek authority to raise the interest rate, the administration has concocted this costly sham.

END RUN AROUND THE LAW

This measure is an endrun around the law. It proposes that all Government agencies that make loans, pool these loans and that certificates of participation backed by these loans be sold to a restricted group of investors and financial institutions.

Because these certificates would not be issued by the Treasury but rather by the Federal National Mortgage Association, they would not be subject to the 4.5 percent legal limitation on interest. Nor would they be counted as part of the national debt. Nor would they appear in the regular Federal budget.

Thus, by bookkeeping sleight-of-hand, the President will be enabled to increase spending without disturbing the budget figures. With this bill the Government enters the banking business for the first time since President Andrew Jackson led a successful fight to liquidate the U.S. Bank. He would, I believe, be horrified to see it revived, in fact if not in name, by another Democratic President.

A SHAME AND A SHAM

This bill is both a shame and a sham. It is a shame because it will line the pockets of the rich at the expense of overburdened low- and middle-income taxpayer. It is a shame because it sets up a concealed financial operation outside the regular budget and debt-management channels. Only 3 hours of committee hearings—only two witnesses, a sad commentary.

The answer to our financial problems lies not in this wheeler-dealer financial trickery. It is to be found in sensible planning by which Federal spending will be governed under a strict order of priorities. This country is at war and our defense requirements are of the highest priority. Spending huge amounts of borrowed money on domestic projects that could be deferred or which should be abandoned creates inflation, drives up the cost of living, and inspires such tricky schemes as the legislation now before us.

I strongly urge that this bill be defeated.

Mr. BROCK. Mr. Chairman, I move to strike the last word.

Gentlemen and ladies, I have taken the 5 minutes to briefly explain the motion to recommit which will be offered shortly.

As some may recall, I stood on the floor yesterday in my first speech on this bill to endorse the principle of the bill. I believe in the subsequent debate we have seen a vindication of the committee process.

If the Committee on Banking and Currency had met its full responsibilities, we would not have seen the acceptance by both sides of clarifying amendments; we would not have seen the acceptance of points of order which struck language violating the Committee on Appropriations' prerogatives and the authorizing committee's prerogatives. But these amendments and points of order have been accepted. We have improved the bill considerably. We have eliminated the revolving fund potential which was inherent in the bill.

There is one particular segment of the bill which remains unimproved, that is, that section of the bill which will have the net effect of increasing interest costs to every borrower in the United States. The recommittal motion will be the amendment offered previously, amendment No. 6, which put a limit of 4¾ percent interest on the interest that could be charged in these participation sales. We have heard the esteemed Speaker of the House, the chairman of the committee, and a number of people on both sides of the aisle speaking for the veteran, for the small businessman, for the home owner, and for the little man of this country. This is our opportunity to vindicate our statements with deeds. The effect of this amendment will be to protect these people.

Mr. ARENDS. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I am glad to yield to the gentleman.

Mr. ARENDS. Do I understand correctly that the gentleman is attempting to say that a vote against the motion to recommit is a vote to raise interest rates?

Mr. BROCK. That is putting it as clearly as you can.

Mr. ARENDS. Thank you. I thought I understood it.

Mr. BROCK. The chairman said that this bill does not relate to higher interest costs. If it does not, then support this recommittal motion and make it clear. Let us be honest about it. If it will increase costs, let us be honest

about it and say that is exactly what you are voting for when you vote for the bill as it is written today.

Mr. PATMAN. Mr. Chairman, will the gentleman yield?

Mr. BROCK. Yes. Of course.

Mr. PATMAN. May I suggest if your amendment is written as the amendment proposed was—and I assume that is correct.

Mr. BROCK. In essence, yes.

Mr. PATMAN. That means if you cannot get the money that way, and obviously you cannot because the market will not permit it, then you will be forced to go into the short-term market where the rate is unlimited and it could be even 10 or 15 percent. There is no limit or no ceiling at all on it. So instead of forcing it lower, you would force them to have higher interest rates.

Mr. BROCK. The gentleman has apparently been unable to find a copy of my amendment, because it has no relation at all to short term or long term.

Mr. PATMAN. Yes. The Liberty Loan Act.

Mr. BROCK. It limits the interest rate to 4¾ percent whether it is short term or long term. The effect of the amendment is to keep participations—if the gentleman will permit me to continue—to keep this Government from invading the private money market when money is so tight the only possible impact on selling the \$4.2 billion of participations here will be to drive up the interest rate a half percent or more. That is what we are trying to stop with this amendment. It has no effect whatsoever other than to limit interest paid on participation sales to 4¾ percent.

Mr. JONAS. Mr. Chairman, will the gentleman yield?

Mr. BROCK. I yield to the gentleman from North Carolina.

Mr. JONAS. I asked the gentleman to yield in order to announce that I intend to ask for a separate vote on the amendment offered by the gentleman from Texas [Mr. PATMAN], but not a rollcall vote. I think we should support our House conferees in their effort to bring this bill back as we amended it.

Mr. BROCK. I thank the gentleman.

Mr. PATMAN. Will the gentleman yield to me now?

Mr. BROCK. Let me complete this one thought, if the gentleman will.

The gentleman from Missouri [Mr. BOLLING], made perhaps as cogent an argument as could be made against the bill as written when he stood up on the first day of debate and said that this bill is right in principle but it is the wrong time and the wrong way of doing it. It will have the effect of increasing interest costs. Let us put this amendment in the bill in our recommittal motion limiting the interest payable so that the Government cannot create havoc in the money market and drive up the cost of home ownership to every home buyer in the United States. That is all we are asking you to do with this recommittal motion. If you support it, you are supporting low interest rates. If you vote for the bill without it, you are going to vote for a high interest bill.

Mr. PATMAN. Mr. Speaker, I ask unanimous consent to proceed for 2 minutes.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

Mr. PATMAN. Mr. Chairman, I hope this is the closing of the debate, and I believe it is.

Mr. Chairman, I know the gentleman from Tennessee [Mr. Brock] is sincere about his proposal, but it will have exactly the reverse effect from what he says.

Now, Mr. Chairman, the gentleman from Tennessee referred to the Liberty Loan Act. That is an act under which all of these bonds are issued. The term "long-term bonds" is used in the amendment. So that means, obviously, if we pass this, we cannot sell the certificates in the market, because the market is higher than that. Being unable to sell the long term, they will be compelled to seek the short term, and there is no ceiling at all. Short term is for a period under 5 years.

In order words, there is no ceiling at all, and instead of it compelling us to have low rates, it will compel us to go to a market where there is no ceiling and pay higher and higher and higher rates and come into competition with other rates and the price of interest will go out of the roof. It is highly inflationary, I will state to my friend, the gentleman from Tennessee [Mr. Brock].

Mr. BROCK. Mr. Chairman, will the gentleman yield?

Mr. PATMAN. I yield to the gentleman from Tennessee.

Mr. BROCK. The amendment does not say whether they should be in the long-term market or in the short-term market. It says it does not matter where they go, they cannot go beyond 4¾ percent. That is all we are trying to do is to limit the amount of interest, so that we do not disrupt the market. The trouble is through buying in the short market they will push the interest rates up.

Mr. PATMAN. But the gentleman refers to the Liberty Loan Act. That is the act under which we have the long-term rates. Therefore, it will do just the opposite.

Mr. Chairman, I hope my friend will reconsider that proposition because he will put himself in the position that I do not believe he wants to be in.

The CHAIRMAN. The time of the gentleman from Texas has expired.

Under the rule, the Committee rises.

Accordingly, the Committee rose; and the Speaker having resumed the chair, Mr. KEOGH, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee having had under consideration the bill (H.R. 14544) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes, pursuant to House Resolution 852, he reported the bill back to the House with sundry amendments adopted by the Committee of the Whole.

The SPEAKER. Under the rule, the previous question is ordered.

Is a separate vote demanded on any amendment?

Mr. JONAS. Mr. Speaker, I ask for a separate vote on the committee amendment, as amended by the Patman and Brock amendments, which appears on page 6, beginning on line 22 of the bill.

The SPEAKER. Is a separate vote demanded on any of the other amendments?

If not, the Chair will put them en gros.

The amendments were agreed to.

The SPEAKER. The Clerk will report the amendment on which a separate vote has been demanded.

The Clerk read as follows:

On page 6, beginning in line 9, insert:

"(4) Beneficial interest or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year.

"(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors).

"There are authorized to be appropriated without fiscal year limitation such sums as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (4) of this subsection.

"Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

The SPEAKER. The question is on the amendment.

The question was taken; and on a division (demanded by Mr. JONAS) there were—ayes 192, noes 0.

So the amendment was agreed to.

The SPEAKER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time and was read the third time.

The SPEAKER. The question is on the passage of the bill.

Mr. BROCK. Mr. Speaker, I offer a motion to recommit.

The SPEAKER. Is the gentleman opposed to the bill?

Mr. BROCK. I am, Mr. Speaker.

The SPEAKER. The gentleman qualifies.

The Clerk will report the motion to recommit.

The Clerk read as follows:

Mr. Brock moves to recommit the bill, H.R. 14544, to the Committee on Banking and Currency, with instructions to report the same back to the House forthwith with the following amendment:

On page 7, immediately after line 6, insert:

"(6) No beneficial interest or participation may be issued pursuant to this subsection after the enactment of this paragraph bearing an interest rate in excess of one-

half of one percentage point above the 4¼ percent maximum interest rate specified for long-term bonds of the United States in the first section of the Second Liberty Bond Act (31 U.S.C. 752)."

The previous question was ordered.

The SPEAKER. The question is on the motion to recommit.

Mr. GERALD R. FORD. Mr. Speaker—

Mr. BROCK. Mr. Speaker—

The SPEAKER. The Chair notes both gentlemen standing and seeking recognition.

Mr. GERALD R. FORD. Mr. Speaker, I will defer to the gentleman from Tennessee.

Mr. BROCK. Mr. Speaker, I demand the yeas and nays on the motion to recommit.

The yeas and nays were ordered.

The question was taken; and there were—yeas 180, nays 218, not voting 33, as follows:

[Roll No. 106]

YEAS—180

Abernethy	Edwards, Calif.	Mosher
Adair	Erlenborn	Nelsen
Adams	Findley	O'Konski
Addabbo	Fino	O'Neal, Ga.
Anderson, Ill.	Fisher	Passman
Andrews,	Flynt	Pelly
George W.	Foley	Pike
Andrews,	Ford, Gerald R.	Pirnie
Glenn	Fountain	Poff
Andrews,	Frelinghuysen	Quile
N. Dak.	Fulton, Pa.	Quillen
Arends	Gathings	Race
Ashbrook	Goodell	Randall
Ashmore	Green, Oreg.	Redlin
Ayres	Grider	Reid, Ill.
Bates	Gross	Reid, N.Y.
Battin	Grover	Relfel
Belcher	Gubser	Rcinecke
Bell	Gurney	Rhodes, Ariz.
Berry	Haley	Robison
Betts	Hall	Rogers, Tex.
Bolling	Halleck	Roudebush
Bolton	Halpern	Roush
Bow	Harsha	Roybal
Bray	Harvey, Ind.	Rumsfeld
Brock	Harvey, Mich.	Ryan
Broomfield	Henderson	Satterfield
Brown, Calif.	Hicks	Saylor
Brown, Clar-	Horton	Schisler
ence J., Jr.	Hosmer	Schmidhauser
Broyhill, N.C.	Hutchinson	Schneebell
Broyhill, Va.	Johnson, Pa.	Schweiker
Buchanan	Jonas	Selden
Burleson	Jones, Mo.	Shriver
Burton, Calif.	Jones, N.C.	Skubitz
Burton, Utah	Karth	Smith, Calif.
Byrnes, Wis.	Kastenmeier	Smith, N.Y.
Cahill	Keith	Springer
Callaway	King, N.Y.	Stafford
Cederberg	Kornegay	Stalbaum
Chamberlain	Kunkel	Stanton
Clancy	Kupferman	Stratton
Clausen,	Laird	Talcott
Don H.	Langen	Taylor
Clawson, Del.	Latta	Teague, Calif.
Cleveland	Lennon	Teague, Tex.
Clevenger	Lipscomb	Thomson, Wis.
Conable	McClory	Tuck
Conte	McCulloch	Utt
Cramer	McDade	Vigorito
Cunningham	McEwen	Walker, Miss.
Curtin	Macdonald	Watkins
Curtis	Mailliard	Watson
Dague	Marsh	Whalley
Davis, Wis.	Martin, Ala.	Whitener
Derwinski	Martin, Nebr.	Whitten
Devine	May	Widnall
Dickinson	Mink	Wolf
Dole	Minshall	Wyatt
Duncan, Tenn.	Mize	Wylder
Dwyer	Morse	Yates
Edwards, Ala.	Morton	

NAYS—218

Abbutt	Bandstra	Boland
Albert	Barrett	Brademas
Anderson,	Beckworth	Brooks
Tenn.	Bennett	Burke
Annunzio	Bingham	Byrne, Pa.
Ashley	Blatnik	Cabell
Aspinall	Boggs	Callan

Cameron	Hathaway	Patman
Carey	Hawkins	Patten
Casey	Hays	Pepper
Ccller	Hechler	Perkins
Chelf	Helstoski	Philbin
Clark	Herlong	Pickle
Cohelan	Hollifield	Poage
Conyers	Holland	Pool
Cooley	Howard	Price
Corman	Hull	Pucinski
Craley	Hungate	Purcell
Culver	Huot	Rees
Daddario	Ichord	Resnick
Danlells	Irwin	Reuss
Davis, Ga.	Jacobs	Rhodes, Pa.
Dawson	Jarman	Rivers, Alaska
de la Garza	Jennings	Rivers, S.C.
Delaney	Jordan	Roberts
Dent	Johnson, Calif.	Rodino
Denton	Johnson, Okla.	Rogers, Colo.
Diggs	Jones, Ala.	Rogers, Fla.
Dingell	Karsten	Ronan
Donohue	Kee	Rooney, Pa.
Dorn	Kelly	Rosenthal
Dow	Keogh	Rostenkowski
Dowdy	King, Calif.	St Germain
Downing	King, Utah	St. Onge
Dulski	Kirwan	Scheuer
Duncan, Oreg.	Kluczynski	Secrest
Dyal	Landrum	Senner
Edmondson	Long, La.	Shipley
Edwards, La.	Long, Md.	Sickles
Evans, Colo.	Love	Sikes
Everett	McCarthy	Sisk
Evins, Tenn.	McDowell	Slack
Fallon	McFall	Smith, Iowa
Farbstein	McGrath	Smith, Va.
Farnsley	McMillan	Staggers
Farnum	McVicker	Steed
Fascell	Machen	Stephens
Feighan	Mackie	Stubblefield
Flood	Madden	Sullivan
Ford,	Mahon	Sweeney
William D.	Matsunaga	Tenzer
Fraser	Matthews	Thomas
Friedel	Meeds	Thompson, N.J.
Fulton, Tenn.	Miller	Thompson, Tex.
Fuqua	Mills	Todd
Gallagher	Minish	Trimble
Garmatz	Moeller	Tunney
Gettys	Monagan	Tuten
Gialmo	Moorhead	Udall
Gibbons	Morgan	Ullman
Gilbert	Morris	Van Deerlin
Gilligan	Morrison	Vanik
Gonzalez	Multer	Vivian
Grabowski	Murphy, Ill.	Waggonner
Gray	Murphy, N.Y.	Walker, N. Mex.
Green, Pa.	Natcher	Watts
Greigg	Nedzi	Weltner
Griffiths	O'Brien	White, Idaho
Hagen, Calif.	O'Hara, Ill.	White, Tex.
Hamilton	O'Hara, Mich.	Wright
Hanley	Olsen, Mont.	Young
Hanna	Olsen, Minn.	Zablocki
Hansen, Iowa	O'Neill, Mass.	
Hansen, Wash.	Ottinger	

NOT VOTING—33

Baring	Leggett	Rooney, N.Y.
Carter	MacGregor	Scott
Collier	Mackay	Toll
Colmer	Martin, Mass.	Tupper
Corbett	Mathias	Williams
Ellsworth	Michel	Willis
Fogarty	Moore	Wilson, Bob
Hagan, Ga.	Moss	Wilson,
Hansen, Idaho	Murray	Charles H.
Hardy	Nix	Younger
Hébert	Powell	
Krebs	Roncalio	

So the motion to recommit was rejected.

The Clerk announced the following pairs:

On this vote:

Mr. Fogarty for, with Mr. Rooney of New York against.

Mr. Moore for, with Mr. Hébert against.

Mr. Younger for, with Mr. Mackay of Georgia against.

Mr. Roncalio for, with Mr. Toll against.

Mr. Collier for, with Mr. Krebs against.

Mr. Abbitt for, with Mr. Moss against.

Mr. Scott for, with Mr. Charles H. Wilson against.

Mr. Bob Wilson for, with Mr. Nix against.

Mr. Corbett for, with Mr. Powell against.

Mr. Carter for, with Mr. Leggett against.

Until further notice:

Mr. Colmer with Mr. Tupper.
Mr. Murray with Mr. Ellsworth.
Mr. Hardy with Mr. Martin of Massachusetts.

Mr. Williams with Mr. Hansen of Idaho.
Mr. Baring with Mr. Michel.
Mr. Hagan of Georgia with Mr. MacGregor.
Mr. Willis with Mr. Mathias.

Mr. McDOWELL changed his vote from "yea" to "nay."

Mr. RACE changed his vote from "nay" to "yea."

The result of the vote was announced as above recorded.

The SPEAKER. The question is on the passage of the bill.

The question was taken; and the Speaker announced that the "ayes" appeared to have it.

Mr. GERALD R. FORD. Mr. Speaker, I ask for the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 206, nays 190, not voting 35, as follows:

[Roll No. 107]

YEAS—206

Albert	Gettys	Morris
Anderson,	Gialmo	Morrison
Tenn.	Gibbons	Multer
Annunzio	Gilligan	Murphy, Ill.
Ashley	Gonzalez	Murphy, N.Y.
Aspinall	Grabowski	Natcher
Bandstra	Gray	O'Brien
Barrett	Green, Pa.	O'Hara, Ill.
Beckworth	Grelgg	O'Hara, Mich.
Bennett	Griffiths	Olsen, Mont.
Bingham	Hagen, Calif.	Olsen, Minn.
Blatnik	Hamilton	O'Neill, Mass.
Boggs	Hanley	Patman
Boland	Hanna	Patten
Brademas	Hansen, Iowa	Pepper
Brooks	Hansen, Wash.	Perkins
Burke	Hathaway	Philbin
Byrne, Pa.	Hawkins	Pickle
Cabell	Hays	Poage
Callan	Hechler	Pool
Cameron	Helstoski	Price
Carey	Herlong	Pucinski
Casey	Hollifield	Purcell
Ccller	Holland	Rees
Chelf	Howard	Resnick
Clark	Hull	Reuss
Cohelan	Hungate	Rhodes, Pa.
Cooley	Ichord	Rivers, S.C.
Corman	Jacobs	Rivers, Alaska
Craley	Jarman	Roberts
Culver	Jennings	Rodino
Daddario	Joelson	Rogers, Colo.
Daniels	Johnson, Calif.	Rogers, Fla.
Davis, Ga.	Johnson, Okla.	Ronan
Dawson	Jones, Ala.	Rooney, Pa.
de la Garza	Jones, Mo.	Rostenkowski
Delaney	Jones, N.C.	St Germain
Dent	Karsten	St. Onge
Denton	Kee	Scheuer
Dingell	Kelly	Secrest
Donohue	Keogh	Senner
Dorn	King, Calif.	Shipley
Dowdy	King, Utah	Sickles
Downing	Kirwan	Sikes
Duncan, Oreg.	Kluczynski	Sisk
Dyal	Landrum	Slack
Edmondson	Long, La.	Smith, Iowa
Edwards, La.	Love	Smith, Va.
Evans, Colo.	McCarthy	Staggers
Everett	McDowell	Stalbaum
Evins, Tenn.	McFall	Steed
Fallon	McGrath	Stephens
Farbstein	McVicker	Stubblefield
Farnsley	Macdonald	Sullivan
Farnum	Machen	Tenzer
Fascell	Mackie	Thomas
Feighan	Madden	Thompson, N.J.
Fisher	Mahon	Thompson, Tex.
Flood	Matsunaga	Todd
Ford,	Matthews	Trimble
William D.	Meeds	Tunney
Fraser	Miller	Tuten
Friedel	Mills	Van Deerlin
Fulton, Tenn.	Minish	Vanik
Fuqua	Monagan	Waggonner
Gallagher	Moorhead	Walker, N. Mex.
Garmatz	Morgan	Watts

Weltner
White, Idaho
White, Tex.

Wolff
Wright
Young

Zablocki

NAYS—190

Abernethy	Edwards, Ala.	Mosher
Adair	Edwards, Calif.	Nedzi
Adams	Erlenborn	Nelsen
Addabbo	Findley	O'Konski
Anderson, Ill.	Fino	O'Neal, Ga.
Andrews,	Flynt	Ottlinger
George W.	Foley	Passman
Andrews,	Ford, Gerald R.	Pelly
Glenn	Fountain	Pike
Andrews,	Frelinghuysen	Pirnie
N. Dak.	Fulton, Pa.	Poff
Arends	Gathings	Quile
Ashbrook	Gilbert	Quillen
Ashmore	Goodell	Race
Ayres	Green, Oreg.	Randall
Bates	Grider	Redlin
Battin	Gross	Reid, Ill.
Belcher	Grover	Reid, N.Y.
Bell	Gubser	Reifel
Berry	Gurney	Reinecke
Betts	Haley	Rhodes, Ariz.
Bolling	Hall	Robison
Bolton	Halleck	Rogers, Tex.
Bow	Halpern	Rosenthal
Bray	Harsha	Roudebush
Brock	Harvey, Ind.	Roush
Broomfield	Harvey, Mich.	Roybal
Brown, Calif.	Henderson	Rumsfeld
Brown, Clar-	Hicks	Ryan
ence J., Jr.	Horton	Satterfield
Broyhill, N.C.	Hosmer	Saylor
Broyhill, Va.	Huot	Schisler
Buchanan	Hutchinson	Schmidhauser
Burleson	Irwin	Schneebeli
Burton, Calif.	Johnson, Pa.	Schweiker
Burton, Utah	Jonas	Selden
Byrnes, Wis.	Karth	Shriver
Cahill	Kastenmeyer	Skubitz
Callaway	Keith	Smith, Calif.
Cederberg	King, N.Y.	Smith, N.Y.
Chamberlain	Kornegay	Springer
Clancy	Kunkel	Stafford
Clausen,	Kupferman	Stanton
Don H.	Laird	Stratton
Clawson, Del	Langen	Sweeney
Cleveland	Latta	Talcott
Clevenger	Lennon	Teague, Calif.
Conable	Lipscomb	Teague, Tex.
Conte	Long, Md.	Thomson, Wis.
Conyers	McClory	Tuck
Cramer	McCulloch	Udall
Cunningham	McDade	Ullman
Curtin	McEwen	Utt
Curtis	McMillan	Vigorito
Dague	Mailliard	Vivian
Davis, Wis.	Marsh	Walker, Miss.
Derwinski	Martin, Ala.	Watkins
Devine	Martin, Nebr.	Watson
Dickinson	May	Whalley
Diggs	Mink	Whitener
Dole	Minshall	Whitten
Dow	Mize	Widnall
Dulski	Moeller	Wyatt
Duncan, Tenn.	Morse	Wydler
Dwyer	Morton	Yates

NOT VOTING—35

Abbitt	Krebs	Roncalio
Baring	Leggett	Rooney, N.Y.
Carter	MacGregor	Scott
Collier	Mackay	Taylor
Colmer	Martin, Mass.	Toll
Corbett	Mathias	Tupper
Ellsworth	Michel	Williams
Fogarty	Moore	Willis
Hagan, Ga.	Moss	Wilson, Bob
Hansen, Idaho	Murray	Wilson,
Hardy	Nix	Charles H.
Hébert	Powell	Younger

So the bill was passed.

The Clerk announced the following pairs:

On this vote:

Mr. Rooney of New York for, with Mr. Fogarty against.

Mr. Hébert for, with Mr. Moore against.

Mr. Mackay of Georgia for, with Mr. Younger against.

Mr. Toll for, with Mr. Roncalio against.

Mr. Krebs for, with Mr. Collier against.

Mr. Moss for, with Mr. Scott against.

Mr. Leggett for, with Mr. Abbitt against.

Mr. Charles H. Wilson for, with Mr. Michel against.

Mr. Nix for, with Mr. Bob Wilson against.
Mr. Powell for, with Mr. Corbett against.

Until further notice:

Mr. Williams with Mr. Tupper.
Mr. Baring with Mr. Ellsworth.
Mr. Colmer with Mr. Martin of Massachusetts.
Mr. Hardy with Mr. Mathias.
Mr. Taylor with Mr. Carter.
Mr. Willis with Mr. MacGregor.
Mr. Hagan of Georgia with Mr. Hansen of Idaho.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

PERMISSION FOR CLERK TO MAKE
CORRECTIONS

Mr. PATMAN. Mr. Speaker, I ask unanimous consent that the Clerk be permitted to correct section numbers, cross references and punctuation in the bill, H.R. 14544 as passed by the House.

The SPEAKER: Is there objection to the request of the gentleman from Texas?

There was no objection.

Mr. PATMAN. Mr. Speaker, pursuant to House Resolution 852, I call up for immediate consideration the bill (S. 3283) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

The Clerk read the title of the Senate bill.

Mr. PATMAN. Mr. Speaker, I send to the Clerk's desk an amendment to strike out all after the enacting clause of S. 3283 and insert in lieu thereof the text of H.R. 14544, as passed.

The SPEAKER. The Clerk will report the amendment.

The Clerk read as follows:

Amendment offered by Mr. PATMAN: Strike out all after the enacting clause of S. 3283 and insert in lieu thereof the provisions contained in H.R. 14544, as passed by the House, as follows:

"That this Act may be cited as the 'Participation Sales Act of 1966'.

"SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

"(1) by inserting '(1)' immediately following '(c)';

"(2) by inserting after 'undertakings and activities' a comma and 'hereinafter in this subsection called "trusts";

"(3) by striking 'obligations offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof' in the first sentence thereof and inserting 'mortgages or other types of obligations in which any department or agency of the United States listed in paragraph (2) of this subsection';

"(4) by striking out the third sentence thereof and substituting therefor the following: 'Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission.'; and

"(5) by striking out the fourth sentence thereof.

"(b) Section 302(c) of such Act is further amended by adding the following:

"(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as provided in this subsection by each of the following departments or agencies:

"(A) The Farmers Home Administration of the Department of Agriculture, but only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949, nor with respect to loans for nonfarm recreational development.

"(B) The Office of Education of the Department of Health, Education, and Welfare, but only with respect to loans for construction of academic facilities.

"(C) The Department of Housing and Urban Development, except that such authority may not be used with respect to secondary market operations of the Federal National Mortgage Association.

"(D) The Veterans' Administration.

"(E) The Export-Import Bank.

"(F) The Small Business Administration.

The head of each such department or agency, hereinafter in this subsection called the "trustor", is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association shall be named and shall act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust. The trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale with recourse of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument.

"(3) When any trustor guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such

trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty.

"(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available for the fiscal year for which it is granted and for the succeeding fiscal year.

"(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). There are authorized to be appropriated without fiscal year limitation such sums as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (4) of this subsection. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

"SEC. 3. (a) Section 305(c) of the Federal National Mortgage Association Charter Act is amended by deleting 'by \$450,000,000 on July 1, 1966,'.

"(b) Section 401(d) of the Housing Act of 1950 is amended by deleting '1968:' immediately preceding the first proviso and by substituting therefor '1965, and 1967 and 1968:'.

"SEC. 4. (a) Section 303(c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: 'For the purpose of making payments into the fund established under section 305'.

"(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called 'the fund') which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts. A business-type budget for the fund shall be prepared, transmitted to the Congress, considered, and enacted in the manner prescribed by law (sections 102, 103, and 104 of the Government Corporation Control Act (31 U.S.C. 847-849) for wholly owned Government corporations.

"(b) (1) The Commissioner, when authorized by an appropriation Act, may transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection

with sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury.

"SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence 'and (8)' and inserting in lieu thereof '(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)'; and by inserting in the fifth sentence after 'title,' the following: 'section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,'.

"SEC. 6. (a) Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

"(b) After June 30, 1966, no department or agency listed in section 302(c) (2) of the Federal National Mortgage Association Charter Act may sell any obligation held by it except as provided in section 302(c) of that Act, or as approved by the Secretary of the Treasury, except that this prohibition shall not apply to secondary market operations carried on by the Federal National Mortgage Association.

"SEC. 7. Paragraph (7) of section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended to read:

"(7) to invest its funds (A) in loans exclusively to members (B) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Government corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;".

"SEC. 8. The Secretary of the Treasury, in consultation with heads of agencies of the United States carrying on direct loan programs, shall conduct a study, in such manner as he shall determine, on the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs and shall report his findings together with specific legislative proposals to the Congress not later than six months after the effective date of this Act. There are authorized to be appropriated such sums as necessary for the purpose of this section.

"SEC. 9. The Federal National Mortgage Association is authorized during the fiscal year 1966 to sell—

"(1) additional participations in the Government Mortgage Liquidation Trust, and

"(2) participations in a trust to be established by the Small Business Administration, each without regard to the provisions of paragraph (4) of section 302(c) of the Federal National Mortgage Association Charter Act."

The amendment was agreed to.

The Senate bill was ordered to be read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

A similar House bill, H.R. 14544, was laid on the table.

GENERAL LEAVE TO EXTEND

Mr. PATMAN. Mr. Speaker, I ask unanimous consent that all Members have 5 legislative days in which to extend their remarks on the bill H.R. 14544.

The SPEAKER. Is there objection to the request of the gentleman from Texas?

There was no objection.

STOCKPILE MEASURES

(Mr. PHILBIN asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. PHILBIN. Mr. Speaker, today the Armed Services Committee is reporting six additional stockpile bills to the House of Representatives. Each of these bills provides for the disposal of quantities of materials which have been determined to be excess to stockpile requirements. Thus far in this session, the administration has submitted 24 legislative proposals for disposition of individual items from the stockpile, and they have given a favorable report on 1 bill introduced by a Member of Congress which provides for the disposal of excess materials from the stockpile. Thus, 25 bills have been considered by a subcommittee of the Armed Services Committee.

Let me assure you as chairman of that subcommittee, that we have not only thoroughly examined into the stockpile requirement but we have assured ourselves based on testimony from members of the executive branch that the stockpile objective is adequate for national defense purposes. In addition, we have carefully examined the proposed rate and quantity of disposal so as to insure that such disposal actions will not be disruptive of our markets.

We have adopted a policy in the committee whereby there must be a consensus between members of the affected industry and Government regarding the method of disposition from the stockpile. Where we have been unable to secure

such agreement, the committee has deferred action on these bills. Thus, of the 25 bills the subcommittee has considered, we have deferred 6 bills, have reported 19 to the full committee, and 13 of these measures have been enacted into law.

Today, we bring you six additional bills calling for the release of various commodities from the stockpiles. In these six bills, there will be some losses to the Government but also some gains. In the overall profit-and-loss picture, if the price of the commodities remains constant over the period of disposal, the Government will stand to net approximately \$22,145,000.

By far, the largest of these commodity bills is aluminum. It provides for the disposal of 920,000 short tons of aluminum from the national stockpile and represents the disposal of all surplus aluminum under terms of an agreement worked out between the Government and the aluminum producers. We are assured that the balance of aluminum left in the stockpiles meets stockpile requirements.

The bills relate to the following commodities: Aluminum; crocidolite asbestos; celestite; cordage fiber, sisal; manganese, metal; and opium.

Because I have a rather detailed statement concerning the release of each of these commodities which I will insert into the RECORD, I will not repeat the details in this general statement.

I feel that the subcommittee, the House Armed Services Committee, and the Congress have cooperated fully with the executive branch of the Government and at the same time maintained congressional control as envisioned by the law.

I am most grateful for the help and cooperation of my outstanding subcommittee and full committee, and the generous consideration and cooperation rendered us by the Members of the House.

DISPOSAL OF CELESTITE

Mr. PHILBIN. Mr. Speaker, I ask unanimous consent for the present consideration of the bill (H.R. 13768) to authorize the disposal of celestite from the supplemental stockpile.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

The Clerk read the bill, as follows:

H.R. 13768

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hereby authorized to dispose of, by negotiation or otherwise, approximately nine thousand eight hundred and sixty-five short tons of celestite now held in the supplemental stockpile established pursuant to section 104(b) of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704(b)). Such disposition may be made without regard to the provisions of section 3 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98b): *Provided,* That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of pro-

ducers, processors, and consumers against avoidable disruption of their usual markets.

Mr. PHILBIN. Mr. Speaker, H.R. 13768 calls for the disposal of 9,865 short tons of celestite from the supplemental stockpile.

At the present time, our total inventories contain 50,944 short tons of celestite and the stockpile objective is for 10,300 short tons. Thus, we have a total excess of 40,644 short tons.

The average acquisition cost of celestite was \$46.46 per short ton.

Celestite is obtained from England and Mexico.

Celestite is strontium sulfate in the form of friable mineral, which is usually coarsely crystalline. Concentration to a usable ore and the chemical manufacture of strontium compounds is usually required for end use.

The principal uses of the commodity: Strontium compounds produce a dense red flame with high brilliance and visibility range. Compounds are used for pyrotechnics, such as tracer ammunition, military flares, and marine distress signals. Minor uses include glass and ceramics, lubricants, sugar refining, luminescent paints, drilling muds, electrolytic zinc refining, welding-rod coating and caustic soda.

It is estimated that the disposal will take from 4 to 10 years. If the market price remains constant over the period of the disposal, the Government is likely to lose \$40,000 from the disposal of this item.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

DISPOSAL OF CORDAGE FIBER

Mr. PHILBIN. Mr. Speaker, I ask unanimous consent for the present consideration of the bill (H.R. 13769) to authorize the disposal of cordage fiber—sisal—from the national stockpile.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

The Clerk read the bill, as follows:

H.R. 13769

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hereby authorized to dispose of, by negotiation or otherwise, approximately one hundred million pounds of cordage fiber (sisal) now held in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98-98h). Such disposition may be made without regard to the provisions of section 3 of the Strategic and Critical Materials Stock Piling Act: Provided, That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets.

Mr. PHILBIN. Mr. Speaker, H.R. 13769 is a bill calling for disposal of approximately 100 million pounds of cordage fiber—sisal—now held in the national stockpile.

At the present time, we have 300 million pounds in our stockpile but this excludes the quantities authorized for sale but not yet sold under Public Law 88-617, enacted October 2, 1964. The excess of cordage fiber excluding that remaining unsold, is 100 million pounds.

The average acquisition cost of this commodity was 13½ cents per pound and thus far, the average return to the Government based on all sales has been 11 cents per pound. I understand the present market value of fresh sisal is approximately 10½ cents per pound.

Sisal is obtained from Portuguese Africa, Tanzania, and Brazil. Sisal fiber is stripped from the large leaves of the tropical plant *Agave sisalana*.

Sisal is used principally for rope, baler, binder, and wrapping twine, upholstery and padding, wire rope centers, and reinforcement for paper and plastics.

Some of this sisal has been in storage for 9 years or longer, and rotation costing about 4.3 cents per pound, has not been undertaken since April 1962.

It is contemplated that the disposal plan will take from 4 to 8 years, and if the market price remains firm the total loss to the Government will be approximately \$3,500,000.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

AUTHORIZING THE DISPOSAL OF CROCIDOLITE ASBESTOS (HARSH) FROM THE SUPPLEMENTAL STOCKPILE

Mr. PHILBIN. Mr. Speaker, I ask unanimous consent for the present consideration of the bill (H.R. 13770) to authorize the disposal of crocidolite asbestos—harsh—from the supplemental stockpile.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

The Clerk read the bill, as follows:

H.R. 13770

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hereby authorized to dispose of, by negotiation or otherwise, approximately forty-five thousand nine hundred and ninety-two short tons of crocidolite asbestos (harsh) now held in the supplemental stockpile established pursuant to section 104(b) of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704(b)). Such disposition may be made without regard to the provisions of section 3 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98b): Provided, That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets.

Mr. PHILBIN. Mr. Speaker, H.R. 13770 provides for the disposal of 45,992 short tons of crocidolite asbestos—harsh—now held in the supplemental stockpile.

At the present time, we have no stock-

pile objective, it having been removed from the list on September 27, 1960, and we have a total inventory of 45,992 short tons, all of which is excess.

The average acquisition cost of the material for disposal was approximately \$259 per short ton, and the present market value is approximately \$270 per short ton.

This type of asbestos is obtained from the Republic of South Africa, Australia, and Bolivia, and there is no mine production of this type in the United States or Canada.

In 1964, Congress authorized the disposal of 1,567 short tons of this type of asbestos but, as yet, there have been no disposals.

Crocidolite asbestos is a fibrous amphibole mineral of the hornblende group. Crocidolite is the blue asbestos of commerce. The most important advantage of crocidolite is its superior resistance to attack by acids. Its texture varies from soft to harsh, with good flexibility and fair spinnability. It is used principally in the manufacture of asbestos cement pipe, packing, and gaskets.

It is anticipated that the disposal will take from 5 to 10 years and if the market price remains constant during that period, the Government will stand to gain approximately \$483,000.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

AUTHORIZING THE DISPOSAL OF METALLURGICAL GRADE MANGANESE ORE FROM THE NATIONAL STOCKPILE AND THE SUPPLEMENTAL STOCKPILE

Mr. PHILBIN. Mr. Speaker, I ask unanimous consent for the present consideration of the bill (H.R. 13772) to authorize the disposal of metallurgical grade manganese ore from the national stockpile and the supplemental stockpile.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

The Clerk read the bill, as follows:

H.R. 13772

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hereby authorized to dispose of, by negotiation or otherwise, approximately one million nine hundred thousand short dry tons of metallurgical grade manganese ore now held in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98-98h) and the supplemental stockpile established pursuant to section 104(b) of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704(b)). Such disposition may be made without regard to the provisions of section 3 of the Strategic and Critical Materials Stock Piling Act: Provided, That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets.

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

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HIGHLIGHTS: Senate agreed to conference report on Interior appropriation bill, including FS. Senate considered motion to agree to House version of participation sales bill.

SENATE

1. APPROPRIATIONS. Agreed to the conference report on H. R. 14215, the Interior and related agencies appropriation bill, including Forest Service items. This bill will now be sent to the President. pp. 10532-41
The Appropriations Committee reported with amendments H. R. 14266, the Treasury-Post Office-Executive Office appropriation bill (S. Rept. 1178). pp. 10471-2

2. PARTICIPATION SALES. Began debate on a motion by Sen. Muskie to concur in the House version of S. 3283, the participation sales bill. pp. 10524-9, 10531-2
3. FOREIGN TRADE. Passed without amendment H. R. 8376, to make permanent the duty-free treatment for certain corkboard insulation, which had been reported without amendment earlier in the day by the Finance Committee (S. Rept. 1170). This bill will now be sent to the President. pp. 10487, 10463
Passed without amendment H. R. 12864, to make permanent the duty-free treatment of personal and household effects brought into the U. S. under Government orders, which had been reported without amendment earlier in the day by the Finance Committee (S. Rept. 1176). This bill will now be sent to the President. pp. 10488-9, 10463
Sen. Ribicoff inserted an address by R. C. Fenton, "Investment Abroad and the Balance of Payments." pp. 10507-9
4. EXPOSITION. Received a Commerce Department report on U. S. participation in the Inter-American Cultural and Trade Center. p. 10467
5. PERSONNEL. Received from the Civil Service Commission a proposed bill to amend Sec. 1310 of the Supplemental Appropriation Act, 1952, restricting promotions and transfers; to Post Office and Civil Service Committee. p. 10467
6. FORESTRY. The Agriculture and Forestry Committee reported without amendment S. 2264, to authorize this Department to accept a cash equalization of exchanges for its lands (S. Rept. 1181), and H. R. 10366, to establish the Mount Rogers National Recreation Area, Jefferson National Forest, Va. (S. Rept. 1182). p. 10472
Received a Calif. Legislature resolution favoring additional fire protection on the national forests. p. 10468
7. RURAL DEVELOPMENT. The Agriculture and Forestry Committee reported with amendments S. 902, to authorize this Department to cooperate with States and other public agencies in planning for changes in the use of agricultural land in rapidly expanding urban areas and in other non-agricultural use areas (S. Rept. 1180). p. 10472
8. ELECTRIFICATION. Sen. Miller spoke in favor of S. 3337, to provide for supplemental REA financing, but said he understood the administration version would not be introduced in the Senate. Agreed to Sen. Cooper's request that the bill be held at the desk until May 20 for addition of cosponsors. pp. 10484-5
9. EDUCATION. Sen. Kuchel recommended continuation of educational assistance for federally impacted areas. pp. 10498-9
10. FARM PRICES. Sen. Carlson said farmers are not to blame for inflation and inserted an article on this subject. p. 10500
11. SCHOOL MILK. Sen. Proxmire spoke against budget cuts in the school milk program. p. 10506
12. ADJOURNED until Mon., May 23. p. 10557

The trouble is that we have been lost in a semantic jungle for too long. We have come to identify "security" with exclusively military phenomena; and most particularly with military hardware.

But it just isn't so. And we need to accommodate to the facts of the matter, if we want to see security survive and grow in the southern half of the globe.

Development means economic, social, and political progress. It means a reasonable standard of living—and the word "reasonable" in this context requires continual redefinition. What is "reasonable" in an earlier stage of development will become "unreasonable" in a later stage.

As development progresses, security progresses; and when the people of a nation have organized their own human and natural resources to provide themselves with what they need and expect out of life—and have learned to compromise peacefully among competing demands in the larger national interest—then, their resistance to disorder and violence will be enormously increased.

Conversely, the tragic need of desperate men to resort to force to achieve the inner imperatives of human decency will diminish.

Now I have said that the role of the United States is to help provide security to these modernizing nations—providing they need and request our help; and are clearly willing and able to help themselves.

But what should our help be?

Clearly, it should be help towards development. In the military sphere, that involves two broad categories of assistance.

We should help the developing nation with such training and equipment as is necessary to maintain the protective shield behind which development can go forward.

The dimensions of that shield vary from country to country; but what is essential is that it should be a shield, and not a capacity for external aggression.

TRAINING IN CIVIC ACTION

The second—and perhaps less understood category of military assistance in a modernizing nation—is training in civil action.

"Civic Action" is another one of those semantic puzzles. To few Americans—and too few officials in developing nations—really comprehend what military civic action means.

Essentially, it means using indigenous military forces for non-traditional military projects—projects that are useful to the local population in fields such as education, public works, health, sanitation, agriculture—indeed, anything connected with economic or social progress.

It has had some impressive results. In the past four years, the United States-assisted civic action program, worldwide, has constructed or repaired more than 10,000 miles of roads; built over 1,000 schools, hundreds of hospitals and clinics; and has provided medical and dental care to approximately four million people.

What is important is that all this was done by indigenous men in uniform. Quite apart from the developmental projects themselves, the program powerfully alters the negative image of the military man, as the oppressive preserver of the stagnant status quo.

But assistance in the purely military sphere is not enough. Economic assistance is also essential. The President is determined that our aid should be hardheaded and rigorously realistic: that it should deal directly with the roots of underdevelopment, and not merely attempt to alleviate the symptoms. His bedrock principle is that United States economic aid—no matter what its magnitude—is futile unless the country in question is resolute in making the primary effort itself. That will be the criterion, and that will be the crucial condition for all our future assistance.

Only the developing nations themselves can take the fundamental measures that make outside assistance meaningful. These measures are often unpalatable—and frequently call for political courage and decisiveness. But to fail to undertake painful, but essential, reform inevitably leads to far more painful revolutionary violence. Our economic assistance is designed to offer a reasonable alternative to that violence. It is designed to help substitute peaceful progress for tragic internal conflict.

The United States intends to be compassionate and generous in this effort, but it is not an effort it can carry exclusively by itself. And thus it looks to those nations who have reached the point of self-sustaining prosperity to increase their contribution to the development—and, thus, to the security—of the modernizing world.

And that brings me to the second set of relationships that I underscored at the outset; it is the policy of the United States to encourage and achieve a more effective partnership with those nations who can, and should, share international peace-keeping responsibilities.

THE HIGHEST PROPORTION

America has devoted a higher proportion of its gross national product to its military establishment than any other major free world nation. This was true even before our increased expenditures in Southeast Asia.

We have had, over the last few years, as many men in uniform as all the nations of Western Europe combined—even though they have a population half again greater than our own.

Now, the American people are not going to shirk their obligations in any part of the world, but they clearly cannot be expected to bear a disproportionate share of the common burden indefinitely.

If, for example, other nations genuinely believe—as they say they do—that it is in the common interest to deter the expansion of Red China's economic and political control beyond its national boundaries, then they must take a more active role in guarding the defense perimeter.

Let me be perfectly clear: This is not to question the policy of neutrality or non-alignment of any particular nation. But it is to emphasize that the independence of such nations can—in the end—be fully safeguarded only by collective agreements among themselves and their neighbors.

The plain truth is the day is coming when no single nation, however powerful, can undertake by itself to keep the peace outside its own borders. Regional and international organizations for peace-keeping purposes are as yet rudimentary; but they must grow in experience and be strengthened by deliberate and practical cooperative action.

In this matter, the example of Canada is a model for nations everywhere. As Prime Minister Pearson pointed out eloquently in New York just last week: Canada "is as deeply involved in the world's affairs as any country of its size. We accept this because we have learned over 50 years that isolation from the policies that determine war does not give us immunity from the bloody, sacrificial consequences of their failure. We learned that in 1914 and again in 1939. . . . That is why we have been proud to send our men to take part in every peace-keeping operation of the United Nations—in Korea, and Kashmir, and the Suez, and the Congo, and Cyprus."

The organization of the American states in the Dominican Republic, the more than 30 nations contributing troops or supplies to assist the Government of South Vietnam, indeed even the parallel efforts of the United States and the Soviet Union in the Pakistan-India conflict—these efforts, together with those of the United Nations, are the first attempts to substitute multinational for uni-

lateral policing of violence. They point to the peace-keeping patterns of the future.

We must not merely applaud the idea. We must dedicate talent, resources, and hard practical thinking to its implementation.

In Western Europe—an area whose burgeoning economic vitality stands as a monument to the wisdom of the Marshall Plan—the problems of security are neither static nor wholly new. Fundamental changes are under way, though certain inescapable realities remain.

NUCLEAR BACKDROP NEEDED

The conventional forces of NATO, for example, still require a nuclear backdrop far beyond the capability of any Western European nation to supply, and the United States is fully committed to provide that major nuclear deterrent.

However, the European members of the alliance have a natural desire to participate more actively in nuclear planning. A central task of the alliance today is, therefore, to work out the relationships and institutions through which shared nuclear planning can be effective. We have made a practical and promising start in the special committee of NATO defense ministers.

Common planning and consultation are essential aspects of any sensible substitute to the unworkable and dangerous alternative of independent national nuclear forces within the alliance.

And even beyond the alliance, we must find the means to prevent the proliferation of nuclear weapons. That is a clear imperative.

There are, of course, risks in nonproliferation arrangements; but they cannot be compared with the indefinitely greater risks that would arise out of the increase in national nuclear stockpiles.

In the calculus of risk, to proliferate independent national nuclear forces is not a mere arithmetical addition of danger. We would not be merely adding up risks. We would be insanely multiplying them.

If we seriously intend to pass on a world to our children that is not threatened by nuclear holocaust, we must come to grips with the problem of proliferation.

A reasonable nonproliferation agreement is feasible. For there is no adversary with whom we do not share a common interest in avoiding mutual destruction triggered by an irresponsible nth power.

That brings me to the third and last set of relationships the United States must deal with. Those with nations who might be tempted to take up arms against us.

These relationships call for realism. But realism is not a hardened, inflexible, unimaginative attitude. The realistic mind is a restlessly creative mind—free of naive delusions, but full of practical alternatives.

There are practical alternatives to our current relationships with both the Soviet Union and Communist China.

A vast ideological chasm separates us from them—and to a degree, separates them from one another.

There is nothing to be gained from our seeking an ideological rapprochement; but breaching the isolation of great nations like Red China, even when that isolation is largely of its own making, reduces the danger of potentially catastrophic misunderstandings, and increases the incentive on both sides to resolve disputes by reason rather than by force.

TRADE AND DIPLOMACY

There are many ways in which we can build bridges toward nations who would cut themselves off from meaningful contact with us. We can do so with properly balanced trade relations, diplomatic contacts, and in some cases even by exchanges of military observers.

We have to know where it is we want to place this bridge; what sort of traffic we want

to travel over it; and on what mutual foundations the whole structure can be designed.

There are no one-cliff bridges. If you are going to span a chasm, you have to rest the structure on both cliffs.

Now cliffs, generally speaking, are rather hazardous places. Some people are afraid even to look over the edge. But in a thermo-nuclear world, we cannot afford any political acrophobia.

President Johnson has put the matter squarely. By building bridges to those who make themselves our adversaries "we can help gradually to create a community of interest, a community of trust, and a community of effort."

With respect to a "community of effort" let me suggest a concrete proposal for our own present young generation in the United States.

It is a committed and dedicated generation: It has proven that in its enormously impressive performance in the Peace Corps overseas; and in its willingness to volunteer for a final assault on such poverty and lack of opportunity that still remain in our own country.

As matters stand, our present Selective systems draws on only a minority of eligible young men.

That is an inequity.

It seems to me that we could move toward remedying that inequity by asking every young person in the United States to give two years of service to his country—whether in one of the military services, in the Peace Corps or in some other volunteer developmental work at home or abroad.

We could encourage other countries to do the same; and we could work out exchange programs—much as the Peace Corps is already planning to do.

While this is not an altogether new suggestion, it has been criticized as inappropriate while we are engaged in a shooting war.

But I believe precisely the opposite is the case. It is more appropriate now than ever. For it would underscore what our whole purpose is in Vietnam—and indeed anywhere in the world where coercion, or injustice, or lack of decent opportunity still holds sway.

It would make meaningful the central concept of security: A world of decency and development—where every man can feel that his personal horizon is rimmed with hope.

Mutual interest—mutual trust—mutual effort; those are the goals. Can we achieve those goals with the Soviet Union, and with Communist China? Can they achieve them with one another?

The answer to these questions lies in the answer to an even more fundamental question.

Who is man?

Is he a rational animal?

If he is, then the goals can ultimately be achieved.

If he is not, then there is little point in making the effort.

All the evidence of history suggests that man is indeed a rational animal—but with a near infinite capacity for folly. His history seems largely a halting, but persistent, effort to raise his reason above his animality.

He draws blueprints for utopia. But never quite gets it built. In the end, he plugs away obstinately with the only building material really ever at hand: His own part-comic, part-tragic, part-cussed, but part-glorious nature.

I, for one, would not count a global free society out.

Coercion, after all, merely captures man.

Freedom captivates him.

Thank you very much.

CONCLUSION OF MORNING BUSINESS

Mr. MUSKIE. Mr. President, is there further morning business?

The PRESIDING OFFICER (Mr. SIMPSON in the chair). Is there further morning business? If not, morning business is closed.

PARTICIPATION SALES ACT OF 1966

The PRESIDING OFFICER laid before the Senate the amendment of the House of Representatives to the bill (S. 3283) to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes, which was, to strike out all after the enacting clause and insert:

That this Act may be cited as the "Participation Sales Act of 1966".

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

(1) by inserting "(1)" immediately following "(c)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking "obligations offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof" in the first sentence thereof and inserting "mortgages or other types of obligations in which any department or agency of the United States listed in paragraph (2) of this subsection";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission"; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following:

"(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as provided in this subsection by each of the following departments or agencies:

"(A) The Farmers Home Administration of the Department of Agriculture, but only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949, nor with respect to loans for nonfarm recreational development.

"(B) The Office of Education of the Department of Health, Education, and Welfare, but only with respect to loans for construction of academic facilities.

"(C) The Department of Housing and Urban Development, except that such authority may not be used with respect to secondary market operations of the Federal National Mortgage Association.

"(D) The Veterans' Administration.

"(E) The Export-Import Bank.

"(F) The Small Business Administration.

The head of each such department or agency,

hereinafter in this subsection called the 'trustor', is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association shall be named and shall act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust. The trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale with recourse of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument.

"(3) When any trustor guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty.

"(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year.

"(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). There are authorized to be appropriated without fiscal year limitation such sums as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (4) of this subsection. Such trustor shall make timely payments to

the trustee from such appropriations, subject to and in accord with the trust instrument."

SEC. 3. (a) Section 305(c) of the Federal National Mortgage Association Charter Act is amended by deleting "by \$450,000,000 on July 1, 1966,".

(b) Section 401(d) of the Housing Act of 1950 is amended by deleting "1968:" immediately preceding the first proviso and by substituting therefor "1965, and 1967 and 1968:".

SEC. 4. (a) Section 303(c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: "For the purpose of making payments into the fund established under section 305".

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called 'the fund') which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts. A business-type budget for the fund shall be prepared, transmitted to the Congress, considered, and enacted in the manner prescribed by law (sections 102, 103, and 104 of the Government Corporation Control Act (31 U.S.C. 847-849)) for wholly owned Government corporations.

"(b) (1) The Commissioner, when authorized by an appropriation Act, may transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury."

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence "and (8)" and inserting in lieu thereof "(8) section 8 of the Watershed Protection and

Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)"; and by inserting in the fifth sentence after "title," the following: "section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,".

SEC. 6. (a) Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

(b) After June 30, 1966, no department or agency listed in section 302(c)(2) of the Federal National Mortgage Association Charter Act may sell any obligation held by it except as provided in section 302(c) of that Act, or as approved by the Secretary of the Treasury, except that this prohibition shall not apply to secondary market operations carried on by the Federal National Mortgage Association.

SEC. 7. Paragraph (7) of section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended to read:

"(7) to invest its funds (A) in loans exclusively to members; (B) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 percentum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Government corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;"

SEC. 8. The Secretary of the Treasury, in consultation with heads of agencies of the United States carrying on direct loan programs, shall conduct a study, in such manner as he shall determine, on the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs and shall report his findings together with specific legislative proposals to the Congress not later than six months after the effective date of this act. There are authorized to be appropriated such sums as necessary for the purpose of this section.

SEC. 9. The Federal National Mortgage Association is authorized during the fiscal year 1966 to sell—

(1) additional participations in the Government Mortgage Liquidation Trust, and

(2) participations in a trust to be established by the Small Business Administration, each without regard to the provisions of paragraph (4) of section 302(c) of the Federal National Mortgage Association Charter Act.

PRIVILEGE OF THE FLOOR

Mr. MUSKIE. Mr. President, I ask unanimous consent that members of the staff of the Committee on Banking and Currency may have the privilege of the

floor during consideration of the pending bill.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator from Maine yield?

Mr. MUSKIE. I am glad to yield to the Senator from Delaware.

Mr. WILLIAMS of Delaware. I believe it would be well for the Senator to explain the differences between the House version and the Senate version. I am hoping that the Senator is not planning on pushing the bill to a vote today because I have been advised that there is but one copy of the conference report in the Senate Chamber, and therefore only one copy available. This bill is of such importance that all Senators should have an opportunity to examine overnight what changes may have been made by the House.

Mr. MUSKIE. Let me say to the Senator that I will undertake to explain the differences between the House and Senate versions. It is our desire to get the bill to a vote today. I trust that the explanation and such discussion as we may have will clarify the questions which the Senator from Delaware may have at that point.

Mr. President, I ask unanimous consent to place in the RECORD at this point the text of the bill as passed by the Senate on May 5 and a brief explanation of the principal differences between the Senate and House versions of the bill.

There being no objection, the bill and explanation were ordered to be printed in the RECORD, as follows:

EXPLANATION OF PRINCIPAL DIFFERENCES

The House changes were mainly of a clarifying or technical nature. There are three principal substantive differences between the Senate and House versions of the bill:

(1) Section 2(b) of the bill specifies the departments or agencies which may establish trusts under this Act. The House bill amends the Senate language applying to the Farmers Home Administration to describe more precisely the programs to be included. The House amendment adds direct soil and water loans to the included programs. The House also specifies certain types of loans within the included programs on which trusts may not be established.

(2) The House amendments added a subsection (b) to Section 6 of the bill, which provides that no department or agency listed in this bill may sell any obligations except as provided by this bill or as approved by the Secretary of the Treasury.

The effect of this provision is to assure effective coordination of all asset sales by the various departments and agencies of the Government.

(3) The House version omits section 8(b) of the Senate version, which would require the Secretary of the Treasury to make an annual report to the Congress giving certain specified information regarding asset sales and related matters.

The Treasury Department has indicated that it will provide such a report, whether or not there is a statutory requirement.

S. 3283

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Participation Sales Act of 1966".

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

(1) by inserting "(1)" immediately following "(c)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking out the words "offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof" in the first sentence thereof and by inserting "and other types of securities, including any instrument commonly known as a security, hereinafter in this subsection called 'obligations,' in which any department or agency of the United States listed in section 302(c) of this Act,";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission."; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following:

"(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as herein provided by each of the following departments or agencies:

"Department of Agriculture: Farmers Home Administration (with respect only to loans for land acquisition, rural housing, and crop production);

"Department of Health, Education, and Welfare: Office of Education (with respect to loans for construction of academic facilities);

"Department of Housing and Urban Development (including the Federal National Mortgage Association);

"Veterans' Administration;

"Export-Import Bank;

"Small Business Administration.

The head of each such department or agency, hereinafter in this subsection called the "trustor", is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association may be named and may act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall pass to the Association in trust: *Provided*, That the trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are

based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Association as trustee pursuant to the trust instrument, and for these purposes may use any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(3) When any trustor guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty by using any appropriated funds or other amounts available to him for the general purposes or programs to which the obligations subjected to the trust are related.

"(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year.

"(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). Whenever the issuance of an aggregate principal amount is authorized pursuant to paragraph (4) of this subsection, such an authorization in an appropriation Act shall establish on the books of the Treasury as appropriations such sums as may be necessary from time to time to enable the trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

SEC. 3. (a) Section 305(c) of the Federal National Mortgage Association Charter Act is amended by deleting "by \$450,000,000 on July 1, 1966,".

(b) Section 401(d) of the Housing Act of 1950 is amended by deleting "1968:" immediately preceding the first proviso and by substituting therefor "1965, and 1967 and 1968:".

SEC. 4. (a) Section 303(c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: "For the purpose of making payments into the fund established under section 305".

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher

education academic facilities loans (hereafter in this section called 'the fund') which shall be available to the Commissioner without fiscal-year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts.

"(b) (1) The Commissioner is authorized to transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with the sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding such fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury."

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence "and (8)" and inserting in lieu thereof "(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)"; and by inserting in the fifth sentence after "title," the following: "section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,".

SEC. 6. Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

SEC. 7. Paragraph (7) of section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended to read:

"(7) to invest its funds (A) in loans exclusively to members; (B) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit

banks, Federal home loan banks, the Federal Home Loan Bank Board or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Government corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;".

SEC. 8. (a) The Secretary of the Treasury, in consultation with heads of agencies of the United States carrying on direct loan programs, shall conduct a study, in such manner as he shall determine, on the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs and shall report his findings together with specific legislative proposals to the Congress not later than six months after the effective date of this Act. There are authorized to be appropriated such sums as necessary for the purpose of this section.

(b) The Secretary of the Treasury shall each year make a report to the Senate and House of Representatives setting forth—

(1) the net increase or decrease during the preceding fiscal year (A) in the aggregate principal amount of obligations acquired by the executive departments, agencies, and instrumentalities of the United States which may be subjected to a trust under section 302(c) of the Federal National Mortgage Association Charter Act, and (B) in the total amount of outstanding beneficial interests or participations in such obligations; and

(2) the extent to which the sale of such beneficial interests or participations reduced the deficit or increased the surplus realized by the Government in its operations during the preceding fiscal year.

SEC. 9. The Federal National Mortgage Association is authorized during fiscal year 1966 to sell (1) additional participations in the Government Mortgage Liquidation Trust, and (2) participations in a trust to be established by the Small Business Administration, each without regard to the provisions of paragraph (4) of section 302(c) of the Federal National Mortgage Association Charter Act, as added by this Act.

Mr. WILLIAMS of Delaware. But the Senator knows that we are dealing with a rather far-reaching proposal here. While not for one moment do I distrust the sincerity of the Senator from Maine, I am not unmindful of the fact that the administration which is sponsoring the proposed legislation tried to sneak through a bill granting it authority to sell \$33 billion worth of our assets. After they were caught with their hands in the cookie jar we were able to reduce that amount down to approximately \$11 billion. But the principle is wrong, and I want to make sure we are not selling the Washington Monument—I would not put that past the administration if it could get away with it. I welcome the explanation of the Senator, but I wish to reserve the right to examine this bill very carefully before the Senate votes to see exactly what little gimmicks, if any, the administration may have slipped in.

Therefore, in the interests of orderly procedure I shall ask that it go over until next week. I am sure we will move

along much faster if the bill is not pushed to a vote this afternoon.

That is a friendly suggestion.

Mr. MUSKIE. In friendly response to the Senator from Delaware, let me say to him that of course I do not agree with his description of the procedure which we undertook in presenting the original administration bill. I do not believe there was anything sneaky about it, but of course the Senator is entitled to his own opinion. In any case, let me say that the point the Senator has just made is the same one we discussed when the bill was recently before the Senate; namely, whether in principle this is a sound thing to do. That question was resolve in two record votes on this side in the Capitol.

The changes made by the House do not raise that issue and do not go to it. The fact is, the changes made by the House tend to tighten the bill in the direction in which the Senator from Delaware would like it to go, so that I am sure he would approve of the House changes, by and large—I will not presume to make that judgment, but I believe that he would.

In any case, I will undertake to explain the differences and we can see where we go from there.

Mr. President, a few days ago, the Senate considered and passed S. 3283, the Participation Sales Act of 1966.

Yesterday the House considered and passed H.R. 14544, which was the House version of the same legislation.

The bill as amended by the House is now before us and has now been laid down, and I would like, at the proper time, to make a motion that we accept the amended bill as it is before us.

The amendments which were adopted in the House and which make it different from the Senate version are largely technical and clarifying amendments.

There are three, however, which I think ought to be brought to the attention of the Senate so it may know what they are.

The first which I undertake to bring to the attention of the Senate has to do with the list of programs which would be covered by the legislation if enacted.

The Senate will recall that in the consideration by the Senate of this legislation the program was narrowed, as indicated by the distinguished Senator from Delaware [Mr. WILLIAMS], from some \$33 billion to some \$11 billion.

The amendment adopted by the Senate which accomplished that, listed the programs and agencies which would be covered by the legislation.

The language which was adopted by the Senate has been clarified by the House. In order to indicate the nature of that clarification, I will read first the Senate language, and then the House language as it relates to the difference between the 2 versions.

The Senate language reads as follows:

2. Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as herein provided by each of the following Departments or Agencies:

The Department of Agriculture: Farmers

Home Administration (with respect only to loans for land acquisition, rural housing, and crop production).

The House language or version reads as follows:

The Farmers Home Administration of the Department of Agriculture, but only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949, nor with respect to loans for non-farm recreational development.

The Senate will recall that the Senate language was modified in respect to questions raised by the distinguished Senator from Florida [Mr. HOLLAND], who was disturbed that the language as it then stood in the Senate bill would be too comprehensive with respect to the Farmers Home Administration programs and would include programs that ought not to be included.

The House has further refined the language adopted by the Senate. The House language has been reviewed by the distinguished Senator from Florida [Mr. HOLLAND], and he raises no objection to it.

I should like to ask the Senator from Delaware [Mr. WILLIAMS], if he would like to direct any questions now to this difference between the House and Senate version.

Mr. WILLIAMS of Delaware. No. I merely want to have a written copy to see for myself what the differences are.

Did I understand the Senator correctly to say that he intends to move that the Senate adopt H.R. 14544?

Mr. MUSKIE. That is my intention. I shall be happy to show the Senator the language I have just read.

Mr. WILLIAMS of Delaware. Mr. President, I would like to direct a parliamentary inquiry to the Chair. I understand the Senator from Maine intends to move that the Senate adopt the House bill, H.R. 14544. That bill is not on the Senate Calendar. The Senate originally passed a bill (S. 3283) which went to the House, and the House amendment to the Senate bill is now before us. But H.R. 14544 as such is not before the Senate.

I ask the Chair if it is in order to consider a bill that has not been before the Senate.

Mr. MUSKIE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. MUSKIE. I was not as precise in stating what my intention was as I should have been.

The PRESIDING OFFICER. The matter before the Senate is to concur in the House amendment, which is a substitute for the Senate bill.

Mr. WILLIAMS of Delaware. That is my understanding, and that is the reason why I raised the question. Perhaps the Senator from Maine misstated what he intended. I understood him to say he was going to move that the Senate adopt H.R. 14544, which is a House bill. I do not think it would be in order if such a motion were made, and I shall make a point of order at the proper time.

Mr. MUSKIE. Mr. President, I did not at that point make a motion. I indicated my intention. I did not indicate it as precisely as I should have from a parliamentary point of view. I regret I was not more precise. But at the proper time I shall undertake to make a motion that is parliamentarily correct.

The second difference between the two versions of the bill which I would like to bring to the attention of the Senate is a requirement added by the House bill which was not included in the Senate bill.

The requirement which has been added to the House bill is to the effect that with respect to direct sales of these obligations outside the authority of the bill or participation sales outside the authority of the bill, such sales could not take place without direct approval by the Secretary of the Treasury. Clearly, the effect of this requirement in the House bill is to bring the entire operation with respect to these obligations under the supervision of the Secretary of the Treasury.

This requirement appears to be important from the standpoint of managing sales of Government paper, whether direct Treasury borrowings, participation sales or direct sales under any program. It appears to make sense and is in fact in conformity with existing practices and I see no difficulty in the requirement which has been provided by the House bill.

The third difference between the two bills deals with an amendment initially offered by the Senator from Utah [Mr. BENNETT], subsequently cosponsored by the Senator from Utah and myself, which established a requirement for an annual report.

The language reads as follows:

(b) the Secretary of the Treasury shall each year make a report to the Senate and House of Representatives setting forth—

(1) the net increase or decrease during the preceding fiscal year (A) in the aggregate principal amount of obligations acquired by the executive departments, agencies, and instrumentalities of the United States which may be subjected to a trust under section 302(c) of the Federal National Mortgage Association Charter Act; and (B) in the total amount of outstanding beneficial interests or participations in such obligations; and

(2) the extent to which the sale of such beneficial interests or participations reduced the deficit or increased the surplus realized by the Government in its operations during the preceding fiscal year.

This language was not included in the House version of the bill because, as I understand, it was not offered in the House.

The Under Secretary of the Treasury, Mr. Joseph W. Barr, has been in touch with the distinguished Senator from Utah [Mr. BENNETT] and has advised the Senator that he will send him a letter accepting the obligation or responsibility which was imposed by the Senate version of the bill. So the annual report contemplated by the language that I have just read will be made, notwithstanding the fact that it is not included in the House version of the bill and may not be included in the bill as enacted by Congress.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. MUSKIE. I yield.

Mr. WILLIAMS of Delaware. In the event that Mr. Barr leaves the Treasury Department and someone else takes his place, would the person who succeeds him be bound by anything that was promised by Mr. Barr?

Mr. MUSKIE. The commitment is by the Secretary of the Treasury as an office, not as an individual.

Mr. WILLIAMS of Delaware. I would like to read such a commitment, because it is my understanding that one Secretary of the Treasury cannot bind a succeeding Secretary of the Treasury any more than one Congress can bind another.

Does the Senator have the text of the letter so that it can be read to the Senate at this time?

Mr. MUSKIE. The Senator from Utah [Mr. BENNETT] conducted the discussions with the Under Secretary of the Treasury. The Senator from Utah is in a better position to reassure the Senator from Delaware than is the Senator from Maine.

I have received this commitment from the representatives of the Secretary of the Treasury with whom I have talked. They have informed me that such a report will be made and that it is not dependent upon the verbal commitment of any individual who is now an employee of the Treasury Department. I have received this commitment.

The record that is being made here also commits the Secretary of the Treasury or the Treasury Department to this obligation. I see no doubt about it.

If the Senator from Delaware desires additional reassurance, I suggest that he discuss it with the Senator from Utah.

Mr. WILLIAMS of Delaware. Is the Senator now speaking of a verbal commitment?

Mr. MUSKIE. I did not discuss this question with the Secretary of the Treasury. My understanding is that the Secretary of the Treasury promised to send Senator BENNETT a letter in which the commitment would be made. I do not know whether that letter has been delivered to the Senator from Utah.

My understanding is that the Senator from Utah received the verbal assurance of the Under Secretary of the Treasury that such a letter would be sent to the Senator. I undertook to establish that fact. If my understanding is incorrect, I desire to be told. My understanding is that the Senator from Utah has been reassured that the Treasury Department is committed to make such a report. I have no reason to believe that the Senator from Utah has not been reassured.

If the Senator from Delaware is not reassured, then by all means the Senator from Delaware should take whatever steps appeal to him to obtain such assurance.

Mr. WILLIAMS of Delaware. I am trying to learn whether the Senator from Maine has received a verbal commitment or a written commitment.

Mr. MUSKIE. I attempted to describe to the Senator from Delaware, in as precise language as I could, what it is I have.

Mr. President, these are the three principal differences between the Senate

version and the House version of the legislation. It is my opinion that they are reasonable and that the Senate would be well advised to accept them.

Mr. WILLIAMS of Delaware. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

[No. 77 Leg.]

Anderson	Hartke	Pastore
Bartlett	Hill	Pell
Bennett	Holland	Prouty
Bible	Javits	Randolph
Boggs	Kuchel	Ribicoff
Carlson	Long, Mo.	Robertson
Church	Metcalfe	Simpson
Clark	Mondale	Sparkman
Douglas	Monroney	Talmadge
Eastland	Montoya	Williams, N.J.
Fong	Morton	Williams, Del.
Gore	Moss	Yarborough
Griffin	Murphy	
Harris	Muskie	

Mr. LONG of Louisiana. I announce that the Senator from North Dakota [Mr. BURDICK], the Senator from Connecticut [Mr. DODD], the Senator from North Carolina [Mr. ERVIN], the Senator from Michigan [Mr. HART], the Senator from New York [Mr. KENNEDY], the Senator from Montana [Mr. MANSFIELD], the Senator from Wyoming [Mr. McGEEL], the Senator from South Dakota [Mr. McGOVERN], the Senator from South Carolina [Mr. RUSSELL], and the Senator from Florida [Mr. SMATHERS] are necessarily absent.

I also announce that the Senator from Tennessee [Mr. BASS], the Senator from Arkansas [Mr. FULBRIGHT], and the Senator from Oregon [Mr. MORSE] are absent on official business.

Mr. KUCHEL. I announce that the Senator from Illinois [Mr. DIRKSEN] is absent because of illness.

The Senator from New Hampshire [Mr. COTTON], the Senators from Nebraska [Mr. CURTIS and Mr. HRUSKA], the Senator from Idaho [Mr. JORDAN], the Senator from Kansas [Mr. PEARSON], the Senator from Pennsylvania [Mr. SCOTT], and the Senator from Texas [Mr. TOWER] are necessarily absent.

The PRESIDING OFFICER (Mr. MONDALE in the chair). A quorum is not present.

Mr. MUSKIE. Mr. President, I move that the Sergeant at Arms be directed to request the attendance of absent Senators.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Maine.

The motion is agreed to, and the Sergeant at Arms will execute the order of the Senate.

After a little delay, the following Senators entered the Chamber and answered to their names:

Alken	Hayden	Nelson
Allott	Hickenlooper	Neuberger
Bayh	Inouye	Proxmire
Brewster	Jackson	Russell, Ga.
Byrd, Va.	Kennedy, Mass.	Saltonstall
Byrd, W. Va.	Lausche	Scott
Cannon	Long, La.	Smith
Case	Magnuson	Stennis
Cooper	McCarthy	Symington
Domnick	McClellan	Thurmond
Ellender	McIntyre	Tydings
Fannin	Miller	Young, N. Dak.
Gruening	Mundt	Young, Ohio

The PRESIDING OFFICER. A quorum is present.

Mr. MUSKIE. Mr. President, I move that the Senate concur in the House amendment to the Senate bill.

The PRESIDING OFFICER. The question is on agreeing to the motion.

UNANIMOUS-CONSENT AGREEMENT

Mr. MUSKIE. Mr. President, I ask unanimous consent that upon the further consideration of the pending question on Monday next, immediately after the conclusion of morning business, debate on said motion be limited to 1 hour, to be equally divided and controlled by the Senator from Delaware [Mr. WILLIAMS], and the junior Senator from Maine [Mr. MUSKIE].

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

The unanimous-consent agreement subsequently reduced to writing, is as follows:

UNANIMOUS-CONSENT AGREEMENT

Ordered, That after the conclusion of morning business on Monday, May 23, further debate on the motion to concur in the amendment of the House of Representatives to the bill S. 3283, to promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes, shall be limited to 1 hour to be equally divided and controlled by the Senator from Maine [Mr. MUSKIE] and the Senator from Delaware [Mr. WILLIAMS].

MAY 19, 1966.

CONVEYANCE OF CERTAIN LANDS TO THE STATE OF UTAH—CONFERENCE REPORT

Mr. MOSS. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 265) to authorize conveyance of certain lands to the State of Utah based upon fair market value. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The legislative clerk read the report. (For conference report, see House proceedings of May 18, 1966, pp. 10375-10376, CONGRESSIONAL RECORD.)

The PRESIDING OFFICER. Is there objection to the present consideration of the report?

There being no objection, the Senate proceeded to consider the report.

Mr. KUCHEL. Mr. President, I am informed that the distinguished senior Senator from Utah [Mr. BENNETT] desires to be in the Chamber as this matter is presented.

Under those circumstances I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. KUCHEL. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MOSS. Mr. President, the basic problem of the Great Salt Lake stems from the geology of the great basin area of which western Utah is a part. The Great Salt Lake lies in a broad shallow basin and the surrounding land is flat. Thus the situation is much like that of a vast flat plain which is periodically under water. During wet cycles, such as the one which hopefully we are beginning, the water flows out over the level land, inundating thousands of acres with each rise of a few inches of water. During dry cycles, the lake drops, exposing equally large areas of mudflats.

For a long period of time the fluctuations of this dead sea were of interest only to academicians and local residents. But recently the extremely saline brines of the lake have been discovered as a rich source of magnesium and other minerals. To develop these minerals large evaporation ponds are necessary which will make use of the heretofore worthless mudflats. It was at this point that a problem arose. The companies wishing to evaporate the brines needed a clear lease to the mudflats before they could start developing this new industry. The State, which owns the lake, since it was navigable at statehood, had always assumed these lands belonged to it. The Federal Government had also assumed the State owned these lands and had even bought a portion of the lands to use for a wildlife refuge. In 1961 the Department of the Interior did an about-face and in a solicitor's opinion decided that these were Federal lands under the common law doctrine of accretion and reliction adjacent to navigable waters. Since the lands around the lake are largely public domain, as the lake receded the exposed lands would, under this theory, become public domain. Then as the lake rose the lands would magically become State property again as the water edged over them. The State disputes that the doctrine of reliction has any relevance in a situation of fluctuating waters such as this. This dispute is obviously a legal question. But until some adjustment is made, no clear lease can be given to this land and a new industry, which will benefit both the State and the Nation, is stymied. This compromise bill seeks to solve that problem by allowing the State to administer these lands as it has done since statehood, but now as a trustee. The legal dispute will be solved either by negotiation between the Secretary of Interior and the State of Utah, or at the option of the State, the Supreme Court will settle the problem.

It should be made perfectly clear, Mr. President, that Congress is not passing judgment on the legal claim of the United States or the State of Utah. The Justice Department and the Interior Department feel that under one legal doctrine they can claim this land. The State of Utah feels that the doctrine proposed by these Departments has no validity with respect to the Great Salt Lake. Congress has made provision in the bill for a negotiated settlement to be worked out between the interested par-

ties. This has necessarily involved setting standards of payment by the party getting possession of the disputed land. This should not be interpreted as in any way declaring the claims of the United States to these lands are valid. These provisions are merely a method of enabling the parties to avoid the expense and delay of a suit before the Supreme Court, nothing more.

There are some considerations that are assumed by the conferees, however, that are not spelled out in the bill. The first of these is the right of the State to use their right to sections numbered 2, 16, 32, and 36 in these lands, the so-called school sections, as a value to be traded off in any fair market value type exchange. It is understood that the State owns the school sections even under the theory of Interior, so in reserving mineral rights to the United States as we did in the bill, we could not include the minerals under these school sections. The time-honored right of the State to that part of the public domain is not impaired. I am sure that it will be to the benefit of both Utah and the United States to transfer all mineral rights to one government or the other for administrative convenience. We envision a trade of this kind occurring in case a fair market value exchange develops.

Another provision deleted from the final bill in the interests of simplification and freedom of negotiations was the one directing that the State's ownership of the waters of the lake be considered in valuing the otherwise almost worthless mudflats. The purpose of this provision was to make clear that the mudflats in dispute are not to be assigned a high value because of their use in connection with a resource, the brines of the lake, solely owned by the State. The lands are valuable to the owner of the waters of the lake, but they are practically worthless to anyone else. Since only small sections of these disputed lands will be used for evaporation ponds, the value of these vast mudflats should not be valued as if all were to be used for this purpose, nor indeed should the value be inflated because of potential use.

The most obvious fact about this bill, Mr. President, is that it was designed to solve the fluctuating boundary line problem caused by the rise and fall of the Great Salt Lake but this bill does not solve this difficulty. I should say it solves only one-half of the problem. Under the bill before the Senate, all surface rights to lands below the meander line—the boundary fixed in the bill—will pass to the State, but there will be a reservation of minerals in the Government of the United States—except school sections. Since the State of Utah owns the waters of the lake and the bed and subsoil beneath these waters, as the waters rise or fall, there will result a change of ownership in the mineral estate, assuming that the United States is held or admitted to be fee owner of the relicted lands.

Under earlier drafts of this bill we had considered requiring a survey of the waterline of the lake as of the date of enactment. This could then have been

the boundary for the mineral interests reserved to the United States. We eliminated this provision in the hope that it would not be necessary. A survey of the waterline was estimated to cost in the neighborhood of half a million dollars. It was in the hope that a final settlement will render this boundary question moot that we eliminated this provision.

Specifically, we envision that the mineral rights underneath the waters of the lake, which the State owns, can be exchanged for the surface rights of the relicted lands—if these are held to belong to the Federal Government. This will solve the boundary problem. All surface rights below the meander line would then belong to the State and all the subsurface mineral rights would then belong to the Federal Government. Thus the fluctuations of the waters of the lake would no longer affect either title. We eliminated from the bill any wording compelling the parties to exchange mineral for surface rights, but unless this course is adopted, an expensive survey will still have to be authorized later in order to have some boundary line for the mineral estate.

If there is no boundary line then the mineral reservation, so carefully preserved to the United States at the insistence of the Justice Department, will be practically worthless since no one will accept a lease that reads "valid only until the land is inundated by rising waters." It is to make perfectly clear that the conferees are aware that we have solved only half of the problem that I am making this detailed statement. The solution is as I have just expounded. If the United States has any interest in these disputed lands, then there must be a trade of mineral interests for surface rights in order to solve the fluctuating boundary. If not, then sometime in the future there must be new legislation, authorizing a survey and designating this new survey as the boundary between the respective mineral estates.

This has been a very laborious and taxing dispute for both Houses of Congress. It has taken a much larger expenditure of effort than any of us thought would be necessary. Hopefully, it will be the beginning of new industry on the shores of this lake with new jobs and new revenues to bolster our economy.

I think it is most important that the negotiation and transfer of land authorized in this bill take place in a spirit of cooperation and fairness. We have required the State of Utah to pay fair market value for the Federal interests in the relicted lands whether negotiated or declared by the Supreme Court. But the words "fair market value" are a relative term and an extremely vague standard for land that has rarely been traded on the open market. The values determined for the disputed land will necessarily be based on subjective, not objective considerations. In view of this, I would warn that either party to the negotiations, by being obdurate or unrealistic, could frustrate the congressional intent. I think it most important that both sides consider the common problem, their

common purpose to administer the lands for the benefit of the people, and their mandate from this body. If this is done, I am sure that further legislation will not be needed. Instead, this most perplexing problem will become an example of the ability of the State and National Government to work together in our federal system.

Mr. JACKSON. Mr. President, the report of the Conferees on S. 265, the Great Salt Lake Relicited Lands bill, is a true compromise between the differing versions of the two Houses.

The Members of the Senate will recall that the subject of this measure is the title to and development of several hundred thousand acres of land which once were beneath the waters of the Great Salt Lake but which now are upland flats. These lands are of great potential value for industrial purposes in connection with the development of the mineral resources of the lake, for waterfowl habitat, and for other recreational purposes. With respect to industrial uses, the committee was informed that there has been something of a "break-through" in recent years with respect to extraction of magnesium, lithium, potash, and other minerals in the brines. Such development, however, requires the use of large areas of land relatively near the waters.

Both the State and Federal Governments claimed title to these relicted lands: The State claimed under theory that when Utah became a State in 1896, ownership of the beds of all inland navigable waters within its boundaries passed to it.

The Federal Government's claim, which was firmly asserted by the Department of Justice, the Department of the Interior, and all other administrative agencies, was based on the time-honored common law theory of reliction—that as the undisputed owner of the uplands, the lands added by recession of the waters became the property of the upland owner, in this case the Federal Government. This theory has been upheld in the Federal courts.

The applicability of this long-established common law principle to situations similar to that of the Great Salt Lake lands was upheld as recently as 1961 by the Ninth Circuit Court of Appeals in the case of United States against State of Washington by a decision which the Supreme Court of the United States refused to upset.

The Senate Interior Committee, after long and careful study, amended S. 265 to conform to the position of the Circuit and Supreme Courts, and that of the Department of Justice and other agencies, by recognizing Federal ownership of the lands but authorizing their sale to the State at fair market value. The minerals in these lands, necessarily being of unknown and indeterminable value, were reserved to the United States. Since the committee was informed by the Governor of Utah and other State officials that there was an urgent need for prompt action, we provided for immediate transfer of title to the State, so that development could begin, and with the amount and manner of compensation to be worked out later.

The House version left the question of title to the relicted lands open to judicial determination by directing the Attorney General of the United States to institute a suit in a court of competent jurisdiction. Possession would have passed to the State only after fulfillment of certain conditions precedent. Oil and gas rights, rather than all mineral rights, in whatever lands were determined to belong to the United States would have been reserved.

The report of the conferees combines the best features of both of these versions. That is, the Secretary of the Interior is directed to convey title to the relicted lands to the State, such title being subject to fulfillment of conditions subsequent. The State then has a choice of two alternative courses of action: One is to have the Secretary of the Interior determine the amount and manner of compensation as of the date of completion of the survey, thus bringing to a speedy end the entire controversy. The other is to institute an action in the Supreme Court of the United States to obtain judicial determination of the present right, title, and interest of the United States. After completion of the Court action, the Secretary then will determine fair market value as of the time of the Court's decision.

Thus, it well could be that if the State elected to go to the Supreme Court on the question of title, and the Court affirms the legal position of the United States, the price Utah would have to pay for the lands might be substantially higher. This would result because at that point in time the values received by the State will probably be much greater. All of the minerals in the relicted lands are reserved to the Federal Government and are withdrawn from development under the mining laws, except those in solution in the brines or precipitated or extracted from brines, all of which are conveyed to the State for their fair market value.

Thus, Mr. President, it will be seen that the measure reported by the conferees is a true compromise. Under it, the State of Utah can proceed immediately to issue leases and permits for the industrial development of the lands and the minerals in the waters of the Great Salt Lake. At the same time, the interests of the Federal Government are fully protected, as are whatever private rights there may be in the lands. The State has a free and full choice with respect to having the Supreme Court decide the title question, or of laying at rest the controversy promptly.

I ask unanimous consent that a section-by-section analysis of the conference report be inserted at this point as a part of my remarks.

SECTION-BY-SECTION ANALYSIS OF CONFEREES REPORT ON S. 265

Section 1 directs the completion of the public land survey, begun in 1855 and continued intermittently, around the lake by closing the present meander line. Thus, there will be no question as to just what lands are sold and conveyed to the State.

Section 2 directs the Secretary of the Interior to quitclaim to the State the lands below the meander line as soon as it is closed in accordance with section 1 and the State

agrees to assume responsibility for administration as a trustee of the lands until compensation is determined. A proviso specifically protect existing private rights, if any, in the lands, and exempts the lands in the Weber Basin Federal reclamation project and the Bear River Migratory Bird Refuge.

Section 3 directs reservation to the Federal government of all minerals in the conveyed lands, except those in brines or precipitated or extracted from brines. The minerals so reserved are withdrawn from appropriation under the mining laws, but at the discretion of the Secretary the deposits may be developed under the mineral leasing laws. A proviso makes State use of the lands the dominant use.

Section 4 provides that as a condition of the conveyance of the lands below the meander line, the State in its turn shall quitclaim to the Federal government its interests in the lands above or upland from the meander line. These interests are those based on the fact that such lands might at one time have been covered by the waters of the lake, or that they may be so covered sometime in the future. A second provision requires that the State agree to pay the fair market value of the lands conveyed, including the minerals in the brines or precipitated or extracted from the brines. In lieu of money alone, the Secretary may accept as payment or part payment property or rights to property of the State, including mineral rights, and the relinquishment of the State's right to select certain public lands.

Section 5 confers on the State the choice, to be made within 9 months of enactment, of alternative actions with respect to settlement of the amount of compensation. First, it may request the Secretary to determine the fair market value of the lands and minerals conveyed as of the date of completion of the survey.

Or, as an alternative, the State may initiate an action in the Supreme Court of the United States for a judicial determination of the extent of the Federal government's rights, title and interest in the lands conveyed. Consent to joinder of the United States as a defendant in such an action is expressly given.

Within two years of the completion of the court action, the Secretary shall determine the fair market value of the lands and minerals conveyed which are found to have been owned by the United States prior to the conveyance. The values shall be determined as of the date of the Court's decision, rather than at the time of the closing of the meander line, as provided by the first alternative.

Failure of the State to elect one of the foregoing two alternative actions within nine months of the date of enactment will nullify the conveyance. Under the first alternative, the Secretary must transmit his findings as to fair market value within two years after the request, and the State must make payment within two years after receiving the determination.

Under the second alternative also the State must make payment within two years of receiving the Secretary's determination, based on the Supreme Court's decision.

Section 6 authorizes the State to issue leases, permits or licenses for utilization of the conveyed lands and resources immediately after it agrees to assume the obligation to administer the lands as a trustee, pending settlement of the amount and manner of the compensation to be paid to the Federal government. Revenues received by the State from such development shall be paid to the United States for the credit of the State, until the full amount of the compensation has been paid. In the event the State adopts the second alternative and the Supreme

Court finds the United States had no property rights in the lands conveyed, then such revenues shall be returned to the State without interest.

The second paragraph of section 6 provides that if the conveyance becomes null and void for any reason, then the leases, licenses or permits issued by the State under the authority of this section shall be deemed instruments issued by the Federal government and shall be administered by the Secretary in accordance with their terms.

Mr. BENNETT. Mr. President, as the original sponsor of the Great Salt Lake Shoreline legislation in the 87th Congress, I am much pleased to see that this long controversy is about to be resolved. I recommend that the Senate adopt the Senate-House conference report as quickly as possible so that the bill can be prepared for the President's signature.

Now that this longstanding conflict is about to be resolved, the State of Utah will be able to move ahead and plan for the early development of hitherto untapped natural resources around and in Great Salt Lake. One provision in the conference report calls for action by the Utah State Legislature, and I am pleased to report that as soon as this bill becomes law the legislature, which is currently in special session, can dispose of the bill quickly itself.

I am also pleased to see that the Senate-House conferees generally have agreed that Utah's claim to the lands around the lake will be protected as will the rights of the Federal Government and of the private individuals or groups who own land around the lake.

The conference committee has recommended an amendment in the nature of a substitute for the House amendment to the Senate bill. The substitute contains features from both the Senate and the House versions and provides for conveyance to the State of Utah of the interests of the United States in relicted lands surrounding Great Salt Lake below the established meander line for the surveys necessary to close the line, for the protection of valid existing rights in third parties, for the United States to retain ownership of lands it now holds within the Bear River Migratory Bird Refuge and the Weber Basin Federal reclamation project, for payment by the State to the United States in cash or equivalent of the fair market value of the interests transferred to it by the United States, for the State to manage the lands pending final resolution of questions of ownership or compensation, and for the State to relinquish any claim to lands lying above the meander line which may heretofore or may hereafter become submerged by the water in the lake.

Mr. President, the conference committee has solved the differences between the two versions by requiring the State of Utah to elect whether to pay the fair market value of the land transferred to it or to institute suit in the Supreme Court to test the United States claim of title.

This election must be made within 9 months after the Secretary of Interior completes the closing of the meander line.

In addition, the conference report pro-

vides that if the State elects to pay fair market value, the Secretary of Interior shall determine that value as of the date of the completed survey. If the State elects to sue and the judgment is in favor of the United States, the State will be bound to pay the fair market value as of the date of judgment as determined by the Secretary. If payment is not made within 2 years after receipt of the Secretary's determination the conveyance becomes null and void.

The bill also provides that the conveyance shall reserve to the United States all minerals "except brines and minerals in solution in the brines or precipitated or extracted therefrom." The value of the latter will be a part of the total fair market value to be paid by the State. The mineral reservation extends to "whatever Federal lands there may be below the meander line of the Great Salt Lake."

Mr. President, legislation is nothing more than compromise, and it is my feeling that the compromise we have before us today will resolve the longstanding question of who owns the land. Before the passage of this bill and because of the nature of the lake it was conceivable that a firm on the shores of the lake would find itself one day under jurisdiction of the Federal Government and the next under jurisdiction of the State government as far as the land is concerned.

I recommend the early adoption of the conference report, so that the State and the Federal Government can begin to receive the benefits for the potential industry that is there.

Mr. MOSS. Mr. President, I move that the conference report be agreed to.

The conference report was agreed to.

Mr. MOSS. Mr. President, I move that the vote by which the conference report was agreed to be reconsidered.

Mr. KUCHEL. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. WILLIAMS of Delaware. Mr. President, I understand there will be nothing further during the day in connection with the conference report which deals with the sale of about \$11 billion worth of Government assets.

I think that the Senate made a wise decision to postpone this matter until Monday in order that Senators may examine the bill and vote more intelligently.

There may not be too much difference between the two versions of the bill, but we cannot escape the fact that this represents a major change of Government policy in financing its expenditures. The proposal involves the authorization of the sale of about \$11 billion of our assets, the proceeds of which can be used to defray regular operating expenses of the Government and thereby reduce the amount of the deficit as will be reported by the Government.

There are some of us who feel strongly that this is a deceitful method of financing and that it does not tell the American people the truth in regard to the cost of these Great Society programs.

For that reason we strongly object to any effort to steamroller this bill through without Senators having had an opportunity to read it.

I am not unmindful of the fact that this legislation as first presented called for an authority to sell \$33 billion of assets.

(At this point Mr. BYRD of West Virginia took the chair as Presiding Officer.)

Mr. WILLIAMS of Delaware. The Senate held but 2 days of hearings on the bill, which deals with a \$33 billion authorization; but, what is worse, the RECORD shows that the first day's hearings were held before the bill had even been introduced. The second day's hearings were finished before the bill had returned from the printer. It was reported the same day, and on the very next day it was made the pending business before the Senate.

There has been an unusual rush to have this bill passed ever since it was first discovered by the White House that this might be a convenient method to make it look like they are balancing the budget. Had it passed as it was originally introduced, the Government could have spent, for the next 3 years, \$10 billion a year more than it is taking in, while still reporting a balanced budget. This is deceitful.

Under the bill in its modified form, which is \$20 billion lower than the original request, the administration can spend between \$10 billion and \$11 billion next year more than it will be taking in and still deceive the American people by telling them they have a balanced budget. The President, in his message to Congress, advocated truth in lending and truth in packaging; I strongly suggest that the White House lend its support to a policy of truth in Government.

Mr. BENNETT. Mr. President, the Senate has been discussing House action on S. 3283. For the RECORD, I should like to report that under today's date I received a communication from Joseph W. Barr, Under Secretary of the Treasury, with respect to an amendment which I offered, which was accepted and made a

part of the bill when the Senate passed it, but was omitted by the House.

Let me read Mr. Barr's letter:

DEAR SENATOR BENNETT: The asset sales bill as passed by the House omitted your amendment to section 8 which would have required the Secretary of the Treasury to make an annual report to the Congress regarding loans held by Federal agencies, participation sales and the effect of participation sales on the deficit or surplus in the administrative budget.

Let me assure you that the Treasury Department will make such a report on a voluntary basis in accordance with the intent of your amendment. Treasury staff will be available to your staff at any time to work out the details and timing of the report procedure.

Since the bill has now gone over until Monday for action, I though I had better get this statement in today's RECORD, in the off chance that I might not be available on the floor during the limited time which has been set for consideration of the bill.

I thank the Senator from Nevada for yielding to me and giving me the opportunity to make this statement.

Mr. BIBLE. I am happy to oblige the Senator from Utah.

DEPARTMENT OF THE INTERIOR AND RELATED AGENCIES APPROPRIATION BILL, 1967—CONFERENCE REPORT

Mr. BIBLE. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 14215) making appropriations for the Department of the Interior and related agencies for the fiscal year ending June 30, 1967, and for other purposes. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The legislative clerk read the report. (For conference report, see House proceedings of May 17, 1966, pp. 10314-10315, CONGRESSIONAL RECORD.)

The PRESIDING OFFICER. Is there objection to the present consideration of the report?

There being no objection, the Senate proceeded to consider the report.

Mr. BIBLE. Mr. President, as this bill passed the Senate, it provided for appropriations totaling \$1,329,755,000 for the agencies and bureaus of the Department of the Interior, exclusive of the Bureau of Reclamation and power marketing agencies, and the various related agencies, including the U.S. Forest Service.

The conference committee bill provides appropriations totaling \$1,321,615,800 for the programs and activities of these agencies. This total is under the budget estimates of \$1,340,260,500 by \$18,644,700; over the House bill of \$1,295,169,500 by \$26,446,300; and under the Senate bill of \$1,329,755,000 by \$8,139,200.

I ask unanimous consent to have printed in the RECORD, at the conclusion of my remarks, a tabulation setting out the appropriation for the current year, the budget estimate, the House allowance, the Senate allowance, and the conference allowance for each appropriation in the bill.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. BIBLE. Mr. President, the House conferees concurred with \$9,500,000 of the \$10,300,000 budgeted for the heavy metals program which had not been considered by the House of Representatives. The House also concurred in the Senate's provision of funds to implement the anadromous fisheries program which was authorized by law approved last October.

In addition, there is agreement on the \$2 million allowed by the Senate for the National Foundation on the Humanities. Furthermore, the Senate's distribution of the Land and Water Conservation Act funds has been accepted by the House.

The conference was a most friendly, cooperative meeting. I believe that the report deals very fairly with the actions and views of both branches of the Congress.

EXHIBIT 1

Interior Department and related agencies appropriations bill, 1967 (H.R. 14215)

Item	Appropriations, 1966	Budget estimates, 1967	Allowances			Conference allowance compared with—		
			House	Senate	Conference	Budget estimate	House allowance	Senate allowance
TITLE I—DEPARTMENT OF THE INTERIOR								
PUBLIC LAND MANAGEMENT								
BUREAU OF LAND MANAGEMENT								
Management of lands and resources.....	\$50,575,000	\$48,755,000	\$48,755,000	\$48,970,000	\$48,855,000	+\$100,000	+\$100,000	—\$115,000
Construction and maintenance.....	3,150,000	2,900,000	2,900,000	3,062,000	3,032,000	+132,000	+132,000	—30,000
Public lands development roads and trails (liquidation of contract authorization).....	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000			
Oregon and California grant lands (indefinite appropriation of receipts).....	(16,945,000)	(9,750,000)	(9,750,000)	(9,750,000)	(9,750,000)			
Range improvements (indefinite appropriation of receipts).....	(1,346,000)	(1,448,000)	(1,448,000)	(1,448,000)	(1,448,000)			
Total, Bureau of Land Management.....	55,725,000	53,655,000	53,655,000	54,032,000	53,887,000	+232,000	+232,000	—145,000

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
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HIGHLIGHTS: Senate concurred in House participation sales bill. Senate received protocol to extend international wheat agreement. Senate committee voted to report Federal pay bill.

SENATE

1. **PARTICIPATION SALES.** By a 50-20 vote, concurred in the House version of S. 3283, the participation sales bill. This bill will now be sent to the President. The bill is designed to provide an efficient and orderly method of liquidating financial assets held by Federal credit agencies and to carry forward the objective of substituting private for public credit in funding the loan programs. It would accomplish this by enabling these agencies, with the approval of Congress, to enter into trust agreements with the Federal National Mortgage Association whereby that Association would sell participation certificates based on a pool or pools of Federal credit agency loans. pp. 10653-60

2. WHEAT AGREEMENT. Received from the President a protocol for extension of the International Wheat Agreement for 1 year from July 31, 1966. pp. 10616-7
3. TOBACCO. Sen. Moss criticized the USDA film, "The World of Pleasure," and said warning labels are needed on cigarettes for export. p. 10628
4. SCHOOL MILK. Sen. Proxmire said this Department admits that the child nutrition bill would not reach a majority of needy children with free milk. pp. 10628-9
5. SOIL SURVEYS. Passed as reported S. 902, to require this Department to make available soil surveys needed by States and other public agencies, including community development districts, for guidance in community planning and resource development. pp. 10631-3
6. LAND EXCHANGES. Passed without amendment S. 2264, to authorize this Department to complete authorized land exchanges if the lands offered to the U. S. are worth at least two-thirds of the value of the Federal lands and the balance is paid in cash or a cash deposit or performance bond is given assuring conveyance to the U. S. of additional acceptable lands for the balance of the value. pp. 10633-4
7. FOREST RECREATION. Passed without amendment H. R. 10366, to establish the Mount Rogers National Recreation Area, Jefferson National Forest, Va. This bill will now be sent to the President. p. 10634
8. FARM PRICES. Sen. Symington said food prices have been going up while farm prices have been going down and that the National Commission on Food Marketing is considering this situation. pp. 10643-4
9. FOREIGN AID. Sen. Lausche commended India for permitting a fertilizer company to make an investment there. pp. 10645-6
10. WATER RESOURCES. Sen. Anderson inserted and commended an address by Sen. Jackson, "Water and the Nation." pp. 10649-50
11. APPROPRIATIONS. Passed as reported H. R. 14266, the Treasury, Post Office, and Executive Office appropriation bill. Senate conferees were appointed. pp. 10660-3
12. POPULATION. Sen. Gruening commended Federal assistance in connection with population control. pp. 10663-7
13. PERSONNEL; PAY. The Post Office and Civil Service Committee voted to report (but did not actually report) with amendments H. R. 14122, the Federal pay bill. As approved by the Senate committee, the bill provides as follows:
 - "(1) Provides a 2.9-percent increase across the board, effective July 1, 1966;
 - "(2) Retains the House-passed one-step increase in the Government's contribution to high-option health insurance by 10 percent;
 - "(3) Retains the provision for retirement on a full annuity at age 55 after 30 years of service, or at age 60 after 20 years' service;
 - "(4) Liberalizes survivor annuity benefits for future widows of Federal employees and children of deceased Federal employees;
 - "(5) Provides a 10-percent increase in the annuities of widows or future widows of Federal employees who died or retired prior to October 11, 1962. This provision was adopted in lieu of the House provision for recomputation of

In Uganda, I have seen Africans walking barefoot for five miles on Sunday, to attend church. In Bukoba, Tanzania, I saw a reverence for Laurian Cardinal Rugambwa that had the holy mysticism of early Christian faith.

Africans, though still searching for guides in the material and political sphere, are strong and transcendent in the areas of faith and devotion. They are aware of the brilliant history of Christianity in Africa up until the 7th century Moslem invasion. The same spirit that created St. Augustine and St. Monica, three African Popes and thousands of African religious hermits in the pre-Islamic days, is reborn among the Christians of modern Africa.

This is the note of hope for Africa. Though the political arena seems troubled, the profundity of faith and deep spiritual dignity to be found there, can be an inspiration to the whole world.

CONCLUSION OF MORNING BUSINESS

The PRESIDING OFFICER. Is there further morning business? If not, morning business is concluded.

PARTICIPATION SALES ACT OF 1966

The PRESIDING OFFICER. Under the order of May 19, 1966, the Chair lays before the Senate the unfinished business, which will be stated by title for the information of the Senate.

The LEGISLATIVE CLERK. The motion to agree to the amendment of the House of Representatives to the bill (S. 3283) to promote the private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

The PRESIDING OFFICER. Under the unanimous-consent agreement, further debate shall be limited to 1 hour, to be equally divided and controlled by the Senator from Maine [Mr. MUSKIE] and the Senator from Delaware [Mr. WILLIAMS].

Who yields time?

Mr. MUSKIE. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Chair recognizes the Senator from Maine.

Mr. MUSKIE. The motion before the Senate is to accept the House amendment to Senate bill S. 3283, the Participation Sales Act of 1966. The changes made by the House, as I explained to the Senate on May 19, are mainly of a clarifying or technical nature. It may be said that they tighten the provisions of the bill rather than broaden it.

There are three principal differences of substance. One is in the section which specifies the departments or agencies which may establish trusts under this act. The programs under the Farmers Home Administration to be included are described more precisely. The change also specifies certain types of loans on which trusts may not be established, even though made under the involved programs of the Farmers Home Administration. These include specifically housing for the elderly and nonfarm recreational programs.

The second substantive change requires that no department or agency list-

ed in the bill may sell any obligations except as provided in the bill or as approved by the Secretary of the Treasury. This provision assures effective coordination of all asset sales by the various departments and agencies of the Government.

The third change is omission in the House version of a definite requirement for an annual report to the Congress by the Secretary of the Treasury as to operations under the bill. On this matter Senator BENNETT, sponsor of this provision in the Senate bill, has received and put into the RECORD of May 19, a letter from Joseph W. Barr, Under Secretary of the Treasury, giving an assurance that the Treasury Department will in practice make such a report on a voluntary basis in accordance with the intent of the provision included in the Senate version.

Other changes made in the House version were of a clarifying or technical nature. The effect of some of them relate to authorizations for appropriations and are designed to avoid the implication that they might be interpreted as appropriating funds in violation of House rules.

With respect to the second substantive change to which I have already alluded, I wish to make a further clarifying comment.

Section 6(b) of the House version requires the approval of the Secretary of the Treasury after June 30, 1966, before assets held by any of the agencies listed in section 302(c) of the Federal National Mortgage Association Charter Act may be sold under other authority.

This section does not, in my judgment, apply to the insured loan programs, of the Farmers Home Administration under the Consolidated Farmers Home Administration Act of 1961 or title V of the Housing Act of 1949. Certainly it was not our intention that it should in any way interfere with the insured loan program of the Farmers Home Administration.

These programs are designed to replace the direct loan programs authorized by these acts, to the extent possible, with private credit guaranteed by the Secretary of Agriculture. A large portion of such guaranteed loans are held by banks in the community where property is located, thus creating a close interest between the holder of the insured loan and the borrower.

The Director of the Bureau of the Budget has assured Representative POAGE that no obstacle will be placed in the way of the full use of the maximum insurance authorization. The letter containing this assurance appears on pages 10388-10389 of the RECORD of the House proceedings of May 18, 1966.

It would be inconsistent with the policy established by this bill and general administration policy on substitution of insured loans for direct loans in Federal credit programs, to use section 6(b) as a means of frustrating the operations of the Farmers Home Administration insured loan programs.

Mr. President, I reserve the balance of my time.

The PRESIDING OFFICER. The Senator from Delaware is recognized. How much time does the Senator desire?

Mr. WILLIAMS of Delaware. Five minutes.

The PRESIDING OFFICER. The Senator from Delaware is recognized for 5 minutes.

Mr. WILLIAMS of Delaware. Mr. President, first I wish to say that I agree with the Senator from Maine [Mr. MUSKIE] that the provisions of the bill as passed by the House of Representatives are substantially the same as those passed by the Senate, except that in its amendments the House did spell out more clearly the Senate amendments reducing the authority as requested, from \$33 billion down to \$10.9 billion.

I am not debating here today the merits of the House bill compared with the Senate bill but rather the principle in both bills of having the Government sell a part of its assets to defray normal operating expenses of our Government.

This procedure is merely a plot to conceal the true size of our deficit.

I know of no better way to point out how dangerous and misleading this policy is and how it can be abused than to call attention to the statement released yesterday by the Executive Branch, wherein the President announced that the deficit for this fiscal year, ending June 30, was expected to be about \$2 billion lower than the previous estimate of \$6.4 billion, as made in January.

It was intended that this be accepted throughout the country as a great achievement in that it would appear that we are coming closer to a balanced budget. In reality we are not. The books have just been juggled a little.

It is true, as the President pointed out, that our revenues have increased, but at the same time our expenditures have increased more. The deficit is not going to be lower on June 30 than was planned in January. Quite to the contrary. The only difference is that they have sold around \$2.4 billion of assets more than they had planned to sell at the time that the President made his speech in January. The sale of these assets will reduce the amount of the reported deficit.

Concealing the true deficit is very dangerous. It invites more inflation. We are not going to cure inflation unless we recognize the cause, and the cause is heavy Government spending and deficit financing.

This year's deficit, instead of being reduced to \$4 billion as the President now indicates, is still going to be around \$8 billion to \$9 billion if we apply the spending to normal income.

I wish to call attention to a few of the items that have been used here to reduce this 1966 deficit to \$4 billion. They expect to have \$1 billion as nonrecurring profit during this fiscal year by reducing the silver content of half dollars and quarters. The Treasury will make \$2.5 billion, \$1 billion of this profit to go into this fiscal year and \$1½ billion next year.

About 2 months ago we passed a bill accelerating payment of corporate taxes over and above existing law. That will bring in an extra \$2.1 billion. The Treasury is selling \$2.5 billion more in assets than was planned to be sold at the time of the January message and in the

past couple weeks the Treasury has advanced the payment dates for withheld payroll taxes. This latter change will give them an extra billion this year.

If we eliminate these one-shot gimmicks and if we figure deficit years as we have always figured deficit years we are going to have a deficit for fiscal 1966 of \$9 billion.

In my opinion the President is doing a great injustice to the American people when he tries to camouflage the true deficit and claims that he has solved the fiscal problems of this Government by selling our assets. It is misleading to permit the people to think that we are paying for the Great Society programs under our current revenue when that is not true.

The Treasury Department confirms the point that to the extent that \$1 of these assets is sold in the manner being proposed, the national debt and the reported deficit are automatically reduced by a corresponding amount.

Next year they are planning to sell \$4.7 billion of these assets. In addition, the Treasury picks up \$4.9 billion next year as the result of the accelerated payments of individual corporate taxes. Both of these represent nonrecurring income. When that is considered along with the \$1.8 billion deficit already announced, there results a \$10 billion to \$11 billion actual deficit next year.

However, when this bill passes authorizing the sale of \$11 billion in assets the administration will actually be able to report a balanced budget next year and still spend \$10 billion more than it will take in.

This is a deceitful method of financing the cost of the Government.

The American people ought to be told the truth. They ought to be told that this administration is currently operating the Government at a deficit which is averaging around \$700 million or \$800 million a month, and that the deficit for the next fiscal year will be from \$800 million to \$900 million a month. If the American people are not told the truth about the deficit the problem of inflation will never be licked.

With the passage of this bill it might well be said that the Government has passed the point of no return so far as the fight on inflation is concerned, because once the executive branch is given the right to camouflage its deficits in this manner our financial policies will not be brought under control, at least in the near future. This represents a serious blow to the stability of our dollar.

Mr. LAUSCHE. Mr. President, will the Senator yield for a question?

Mr. WILLIAMS of Delaware. I yield.

The PRESIDING OFFICER. The time of the Senator from Delaware has expired.

Mr. WILLIAMS of Delaware. I yield myself an additional 5 minutes. I yield to the Senator from Ohio for a question.

Mr. LAUSCHE. What was declared to be the anticipated deficit for the current fiscal year, when it was announced in January?

Mr. WILLIAMS of Delaware. The January estimate was \$6.4 billion deficit. Since that time the Government has al-

ready sold \$2.5 billion of our assets in participation certificates. I understand—and this is only an understanding—that one reason why the administration wants to have the bill passed quickly is because of its desire to sell another \$800 million certificates of the Small Business Administration before June 30. This will further reduce the reported deficit beyond what I have already discussed. To the extent that these assets are sold it will reduce the deficit, as reported, but it will not reduce the true deficit. If the Great Society sells the Washington Monument and spends the proceeds it does not represent sound financing.

I said the other day that the situation is exactly comparable to that of an individual family whose income is derived from a salary of \$9,000 a year. They are spending \$10,000 a year, so he goes out and sells his car for \$2,000 and comes back and says, "I end up this year with a surplus of a thousand."

He is not getting ahead. He is gradually going broke. That is exactly what they are doing with the Federal Government, but the only thing is the administration is not telling the American people the truth. It is misleading the American people as to exactly what these Great Society programs cost. The President makes a great issue about his interest in truth-in-lending and truth-in-packaging. What we need more than either of these is truth-in-Government.

Mr. LAUSCHE. Will the Senator kindly repeat the announced deficit as of last January?

Mr. WILLIAMS of Delaware. As of January, the President projected a deficit at the close of the 1966 fiscal year of \$6.4 billion.

Mr. LAUSCHE. What was the latest statement?

Mr. WILLIAMS of Delaware. Yesterday he said he would reduce it about \$2 billion, which would bring it down to around \$4 billion. Later I would not be surprised to see them sell some more of our assets and reduce the amount even more.

Mr. LAUSCHE. Getting to the sale of assets, one, there has been a windfall—if I may so describe it—through the replacement in our coins of a metal as a substitute for silver. How much has that produced?

Mr. WILLIAMS of Delaware. In fiscal 1966, \$1 billion. The next fiscal year we will get a nonrecurring profit of a billion and a half. This nonrecurring income is being used to defray regular expenses.

Mr. LAUSCHE. This windfall, through the substitution of a cheaper metal for silver, is being used for the financing of current operating expenses.

Mr. WILLIAMS of Delaware. That is correct.

Mr. LAUSCHE. No. 2, how much will be picked up through the acceleration of the time in which the income tax must be paid as of year 1966?

Mr. WILLIAMS of Delaware. For fiscal 1966 they picked up an additional \$1.2 billion. Already the old law, passed a year ago, brought in an extra \$1 billion; but that law, which was passed since the President's January message,

brings in another \$1.2 billion. This added to the \$2.5 billion in assets being sold means we have \$4.7 billion this year in extra revenue—or in other words the deficit is still over \$8 billion when we pull aside the curtain.

Mr. LAUSCHE. What assets have been sold which have produced the \$2.5 billion?

Mr. WILLIAMS of Delaware. Mostly FNMA mortgages.

Mr. LAUSCHE. So that the use of capital is covered by 1 billion of the dollars obtained through the substitution of a cheaper metal for silver, 1 and 2 billion through the acceleration in the payment of taxes which is nonrecurring, and \$2.5 billion in the sale of securities by FNMA.

Mr. WILLIAMS of Delaware. That is correct.

Mr. LAUSCHE. Therefore, using capital assets for current operating expenses brings the anticipated deficit down to the \$4 billion label which has been declared—

Mr. WILLIAMS of Delaware. That is right. Yesterday, the administration in making this announcement presented it to the American people as a great achievement. It is not. What I am concerned about is that this is an open invitation to more inflation, inflation that is, in my opinion, inevitably going to follow this kind of irresponsible financing. This era will be known as the Johnson inflationary period. All those aged who are being pauperized as a result of this planned inflation should know that this is part of the Great Society plan. I do not know of any better language which describes this unsound financial arrangement than to quote from yesterday's issue of Barron's magazine in which they quote an administration official who describes the proposal to sell these assets as follows. I quote from that article:

Originally the administration wanted to do even more. Its proposals would have covered the entire Federal loan portfolio for the 100 programs worth some \$33 billion. In an unguarded moment of candor a staunch backer of the bill called this "one of the slipperiest pieces of legislation I have ever encountered."

Mr. President, I wholeheartedly agree with that statement. This is not only a slippery piece of legislation as this sponsor claims, but it is also fiscally irresponsible.

The PRESIDING OFFICER. The time of the Senator from Delaware has expired.

Mr. WILLIAMS of Delaware. Mr. President, I ask for 5 additional minutes.

The PRESIDING OFFICER. Without objection, the Senator from Delaware is recognized for 5 additional minutes.

Mr. WILLIAMS of Delaware. Mr. President, this program will result in more inflation. When we liquidate our assets and use the proceeds for current expenditures, we are inviting inflation.

There is another point that should be mentioned; that is, the extra interest cost. It will cost at least one-half percent more to finance the Government in this manner than it would in the normal manner of selling Government bonds. Some claims this extra cost would be

only a quarter of a percent. Even if it were only a quarter of a percent, that would be bad enough. But, there have been three or four sales this year which have averaged four-tenths to seven-tenths percent extra. The average extra cost has been over one-half percent. That means that for every \$1 billion financed this way it will cost an extra \$5 million. If we sell the full amount of \$10 billion we will be paying an extra \$50 million in interest annually.

These participative certificates are 100 percent guaranteed by the Federal Government. Some say that they will be in denominations no lower than \$10,000, which means that the Johnson administration will make sure the average John Doe will not collect this 5½ percent interest. He is supposed to put his money into "E" bonds and take 4¼ percent. But the banking industry, knowing that these are 100 percent guaranteed by the Federal Government, will have an attractive 5½-percent interest rate.

Certainly good, sound management would dictate that the Treasury should finance the Government in the cheapest manner possible. The reason they do not wish to sell these bonds in the normal way is that it would show up the true deficit. They could not deceive the American people in the manner that they can under this particular bill.

Mr. LAUSCHE. Is this calculation substantially correct, that for every \$1 billion worth of participation certificates sold, the added increase in the interest cost will be approximately \$5 million a year?

Mr. WILLIAMS of Delaware. That is correct.

Mr. LAUSCHE. So that if \$4.2 billion worth of participation certificates are sold, the added interest cost to the taxpayers will be over \$20 million a year.

Mr. WILLIAMS of Delaware. That is correct.

Mr. LAUSCHE. Do I correctly understand that we are not selling these mortgages fully and completely, but merely selling participation certificates; thus, the Federal Government still is holding the bag if mortgages go sour in payment at the end?

Mr. WILLIAMS of Delaware. There is no question about it. The agency selling these certificates is bound by the terms of the agreement that if one mortgage goes bad it will be replaced with a good note or paid in cash.

Do not forget that FNMA has the authority to borrow money from the Federal Treasury to make good on its obligations. There is no question on the part of anyone but that these are 100 percent Government guaranteed loans. The only difference in selling them in this manner is that they will cost the taxpayers approximately one-half percent more in interest rates, and it would conceal the true deficit from the American people.

I repeat, this is an irresponsible and unnecessarily expensive way to finance the cost of operating the Government.

Mr. LAUSCHE. May I put one more question to the Senator. What is the limit of the amount that the Government will be allowed to put into the pool

upon which they will sell certificates as provided in this bill?

Mr. WILLIAMS of Delaware. Under the bill that was first sent down to Congress the administration asked for the authority to sell up to \$33 billion in assets. We amended the bill in the Senate. The House has accepted those same amendments in substance. The bill before the Senate now, authorizes the sale of \$10.9 billion, but that is wrong. If the pending bill passes in its present form it means that in the next 2 years the administration can sell these assets—spend, we will say, \$10 billion more than it is taking in, and still report a balanced budget to the American people.

If any private corporation issued any such misleading financial report their officers would be sent to the penitentiary.

This entire plan is nothing but a vehicle to get through the 1966 election without having to raise taxes.

The administration, if it could have gotten away with it, wanted to obtain authority to sell \$33 billion in assets which would carry them by the 1968 Presidential election. This may be the way they do it in Texas, but it is not the way to run a Government.

I do not think we should dip into the Federal Treasury to buy an election for any political party.

We are already having trouble enough with inflation in this country. The President of the United States ought to tell the American people the truth; namely, that his is the most extravagant administration we have ever had in the White House. The present administration during the past 6 years has spent a total of \$36.5 billion more than it collected into the Treasury. That is more than \$550 million a month for every month that the Kennedy-Johnson administration has been in office, and right now the present administration is running a deficit at the rate of \$750 million or \$800 million a month.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. MUSKIE. Mr. President—

The PRESIDING OFFICER. How much time does the Senator from Maine yield to himself?

Mr. MUSKIE. I yield myself 5 minutes for the time being.

Mr. President, the opposition to the pending bill—and that has been primarily the primarily the Senator from Delaware this afternoon—persists in referring to

it as a means of camouflaging a deficit, financing the public debt, and evading the 4¼-percent ceiling on long-term Government obligations.

In addition, the Senator from Delaware this afternoon has referred to the bill as "misleading," as "failing to tell the American people the truth," as a "slippery piece of legislation." That was some of the colorful language the Senator from Delaware used this afternoon. Mr. President, it is none of these things.

It is, on the contrary, a means of selling certain assets held by the Government. It authorizes use of a technique by which the administration can sell participations—amounting to about \$4.2 billion in fiscal 1967—in pools of certain types of direct loans totaling some \$11 billion that the Government has made to individuals, business, and institutions in the past. In this way, the Government will reduce the sum of the taxpayers' money tied up in its portfolio of direct loans and increase the role of the private market in Federal lending programs.

I would like to remind the opposition at this time of the efforts of the last Republican administration to sell similar assets.

During the 8 years of the Eisenhower administration, assets consisting of loans totaling almost \$1.6 billion were sold. More than two-thirds of the total was in loans held by the Federal National Mortgage Association. But loans of the Farmers Home Administration, the public housing program, the Veterans' Administration, the Export-Import Bank, and the Small Business Administration are included in the total—the same programs covered by the pending bill.

And the total of the \$1.6 billion does not include some \$200 million in reconstruction finance corporation loans and securities that were sold or refinanced. Also not included are some \$47 million in interest-bearing certificates of interest in a \$73 million pool of smaller business loans with unpaid balances and commitments, which were sold in 1954.

I ask unanimous consent to have a table showing sales of assets during the Eisenhower administration, together with a note on figures not included in it, be printed in the RECORD at this point in my remarks.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Sales of financial assets, January 1953 through December 1960,¹ by fiscal years

[In millions of dollars]

Agency or program	1953 (2d half)	1954	1955	1956	1957	1958	1959	1960	1961 (1st half)	Total
Department of Agriculture: Farmers Home Administration.....				(²)		19	1		2	22
Department of Housing and Urban Development:										
Federal National Mortgage Association.....	27	575	201	4		4	13	312	4	1,140
Public housing program.....		215								215
Veterans' Administration.....	2	6	26	5	1	2	4	(²)	1	47
Export-Import Bank of Washington.....			(²)		5	96	19	22		142
Small Business Administration.....			1	(²)	(²)	1	(²)	1	1	4
Total.....	29	796	228	9	6	122	37	335	8	\$ 1,574

¹ Excluding liquidation of assets owned by the Reconstruction Finance Corporation.

² Less than \$500,000.

³ Total does not add due to rounding.

SALES OF FINANCIAL ASSETS, JANUARY 1953
THROUGH DECEMBER 1960

The attached summary of asset sales in 1953-60 does not include sales by the Reconstruction Finance Corporation, which was placed in liquidation in September 1953. Of the \$686 million in loans and securities then outstanding, more than \$200 million were subsequently sold to or refinanced by private lending institutions.

In February 1954, 2,800 smaller business loans with unpaid balances and commitments totaling \$73 million were placed in a pool, and interest-bearing certificates of interest amounting to \$47 million in this pool were sold to nearly 1,000 banks and private lenders.

Mr. MUSKIE. Mr. President, these figures reveal the substantial scope of the assets sales program during the administration of President Eisenhower. They reveal the dimensions of an activity which had the support of almost all members of President Eisenhower's party in this House.

The program was not different in its broad aims from the program President Johnson is pursuing with the legislation before us. A different technique is involved, but the purposes of reducing the portfolio of direct loans and substituting private for public credit are the same. Also, the budget treatment and effect are the same under the Eisenhower program and under the Johnson program. The budget treatment in effect is the same under the Eisenhower program and under the Johnson program.

If ulterior motives, such as are implied in calling this a slippery piece of legislation, misleading, and untruthful, can be ascribed to the proposal now before us, then the same ulterior motives can also be ascribed to President Eisenhower's program.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. MUSKIE. I yield myself 5 additional minutes.

That program is as subject as the pending bill to the charge that its purpose was to camouflage deficits, finance the public debt by backdoor methods, and evade the 4¼-percent ceiling.

That was not the case, of course. Nor is it the case now.

On this point I cite the 1963 minority report of the House Ways and Means Committee, which in effect directed the administration to sell more assets. That is exactly the purpose of this bill: To sell those assets in an orderly fashion and in a manner most advantageous to the lending agencies and to the taxpayers.

Mr. President, I ask unanimous consent that the statement in the House minority report be included in the RECORD at this point in my remarks.

There being no objection, the extract was ordered to be printed in the RECORD, as follows:

Republican Minority Report, House Ways and Means Committee Report, 88th Congress, 1st Session (May 1963) on H.R. 6009 (to provide temporary increases in the public debt limit).

"The administration also can always reduce its borrowing requirements by additional sales of marketable Government assets . . .

"For example, when the Secretary of the Treasury was before the committee on February 27, we suggested that it was incumbent

upon the administration to show "good faith" before coming to the Congress for an additional increase in borrowing authority. We pointed out that the Government held about \$30 billion in loans, many of which were readily marketable. In fact, there was a very good market for many of these loans. Instead of increasing its offering of these loans to private lenders, the administration was then acting on the supposition that the Congress would automatically accede to a request for an increase in its borrowing authority.

"It was also pointed out to the Secretary of the Treasury that the Government had other assets which might be liquidated, such as the stockpile of strategic materials amounting to about \$8.7 billion.

"Our refusal to grant the administration's request last February produced results." In the interim of less than 2 months the administration found that it could increase revenues from the sale of loans by an additional \$1 billion for fiscal 1963. Now, the administration estimates that it will realize \$2.082 billion—as contrasted with an original estimate of only \$0.929 billion less than 2 months ago."

The Republican members who signed the minority report were: John W. Byrnes, Howard H. Baker, Thomas B. Curtis, Victor A. Knox, James B. Utt, Jackson E. Betts, Bruce Alger, Steven B. Derounian, Herman T. Schneebeli, Harold H. Collier.

Mr. MUSKIE. Mr. President, there has been a great deal of reference in the Senate during debate on this bill over the action which took place in 1959 on a related matter. Most of us—and I do not exclude myself—have either overlooked or forgotten the real significance of that event in 1959, and consequently we have been misinterpreting it. I am referring of course, to the resolution of August 1959, expressing the sense of the Senate against the exchange of certain mortgages held by the Government for certain long-term privately held Government bonds.

For the benefit of those of us whose memory of that day has faded, let me recall the situation.

During a low-interest period, chiefly if not entirely during the Truman administration, the Government had sold long-term low-interest bonds. Some \$7.8 billion of these were outstanding.

The Eisenhower administration, in a substantially higher-interest period, made a proposal concerning \$335 million of 2¾-percent bonds, to take place during fiscal 1960.

The bonds in question could be converted to short-term only at an interest rate of 1½ percent. They were salable only at a substantial discount.

The administration proposed to exchange \$335 million of the bonds for a like amount of prime mortgage paper, bearing 4 percent interest, fully guaranteed, and scheduled or likely to be retired, on the average, in 7 or 8 years.

If this swap was successful, the administration proposed to swap an additional \$665 million of the mortgages for the bonds.

The entire transaction would have reduced the Government's portfolio by \$1 billion and reduced the deficit by \$1 billion.

The administration conceded a substantial loss of the taxpayers' money in the transaction. But by putting a heavy discount on the mortgages—priced for quick sale in a high-interest market—

and ignoring the 1½-percent rate at which an appreciable amount of the bonds would have been converted, the administration managed to minimize the loss.

Considering that there were almost \$8 billion of the bonds outstanding, one Member of this House estimated the total possible loss at \$100 million per year during a 5-year period—half a billion dollars.

Those opposed to the proposal brought in a resolution that the sense of the Senate was against the proposed transaction.

The question of asset sales was involved, as the Senator from Delaware and I have agreed. However, there were other aspects to the proposal which many thought unwise and questionable. The vote on the resolution was revealing. Only 3 members of the minority—including the Senator from Delaware—joined 53 members of the majority in voting for the resolution. Twenty-nine members of the minority made up the entire opposition.

The Senator from Delaware has made much of that vote. The debate went on for several hours. It covers 32 pages of the RECORD. In all that time, the Senator from Delaware said not one word in debate.

The Senator from Delaware did not undertake to describe the proposal of the Eisenhower administration in the harsh terms he has used to describe the proposal of the Johnson administration this afternoon.

During the debate the past few days, the Senator from Delaware has often returned to the following themes: that the bill was a \$33 billion authorization; that would enable the administration to spend \$33 billion without normal expenditure control; that it would empower the administration to sell foreign aid loans; that only his "major surgery" on the bill eliminated or limited those broad, unfettered grants of power.

In his letter of transmittal, the President detailed programs of which assets were to be sold through the participations technique. No foreign aid loans were included; it has been perfectly clear from the beginning that they were excluded. Amendments to which the administration agreed early in the legislative history placed effective congressional control over every sale of participations, through the appropriation process.

In contrast to the 1959 situation, in which our resolution had no force, and in which it would have been necessary to change the law, requiring the agreement of both Houses and the administration, under this legislation the refusal of either House to concur will prevent any proposed sale through participations.

In exercising its power over appropriations, Congress will have complete control of the amounts of money made available and how they are used. It will retain the control it now has over the limitations on the lending programs.

The amendments we have agreed to limit the scope to a group of programs and loans totaling about \$11 billion. This was no major surgery. It is simply our expression of good faith: the President

meant what he said in his letter of transmittal, and we are willing to demonstrate that fact by writing the limitations into the bill.

In short, the proposals before us has a well-established basis in the Eisenhower administration and since. It has been approved then and since as a sound way of substituting private money for public money in direct loan programs. As such it merits our support.

Mr. President, I reserve the remainder of my time.

Mr. HOLLAND. Mr. President, will the Senator yield 5 minutes?

Mr. MUSKIE. I yield.

Mr. HOLLAND. Mr. President, I support the position of the distinguished Senator from Maine. I would not have supported the legislation if the changes had not been made in the bill when it was originally discussed in the Senate.

The Senator from Delaware [Mr. WILLIAMS], the Senator from Ohio, and others are entitled to a large part of the credit for the changes that were made at that time. As the legislation now reads, however, this is a worthy approach, and offers an opportunity to use for the Nation, in this time of crisis, the assets which belong to the Nation. I shall support the bill in its present form.

Mr. President, I desire to call attention to this fact, also, if I may have the attention of Senators on the other side of the aisle.

I have in my hand a news item that appeared today on the ticker tape outside the Senate Chamber. The article reads, in part:

The Treasury Department asked Congress today to raise the temporary debt ceiling to \$332 billion for the fiscal year which begins July 1.

The ceiling—which was raised by Congress last year to a temporary \$328 billion—would drop to the permanent level of \$285 billion if Congress fails to act.

I desire to make clear my position that although I am voting for the measure that is being discussed in the Senate today, I shall oppose the proposed increase of the debt limitation. I do not believe we can run in both directions at the same time.

I believe that an administration is to be commended when it attempts, in a reasonable way, to lessen the debt limitation, and I believe that is what we would do if we approved the bill that is before us today.

I believe the administration is unwise in requesting the authority to increase the debt limitation to \$332 billion for the coming fiscal year.

Therefore, to make my position entirely clear, I approve the pending legislation because it is a wise marshaling of assets. Such action would be commendable by a private institution or a business institution, as a method of preventing further indebtedness.

I shall oppose the proposed debt limitation increase from \$328 billion to \$332 billion, because I believe we cannot run in both directions at the same time. I shall support the pending bill.

The PRESIDING OFFICER. Who yields time?

Mr. WILLIAMS of Delaware. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator from Delaware has 13 minutes remaining.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 5 minutes.

Mr. President, in response to the Senator from Florida, I desire to point out that without this devious method of financing the President would have to request an increase in the debt ceiling to about \$336 billion or \$337 billion because under the provisions of the bill, in the next fiscal year he plans to sell \$4.7 billion of assets and use the proceeds as normal revenue. Unquestionably, to the extent that he sells these assets and applies them to normal revenue, the amount of money that the Treasury has to borrow through direct Government obligations is reduced.

But I point out that the Government will still owe money even though it is not counted as a part of the national debt. When one endorses a note it is just the same as when he borrows. The only difference is that the Government will pay more interest. There is only one real way to keep the debt ceiling down; and that is, to stop spending.

Liquidating the assets of the Government to defray normal expenses is exactly the same as occurred in the past when Mr. Wolfson bought the local transit system. In the District of Columbia he bought the transit systems and then distributed the assets of the corporation. That was what Mr. Wolfson did with several companies which he headed, leaving the corporations as a shell.

What we are being asked to do today is to authorize the Federal Government to sell its assets and apply the proceeds to cover daily expenses.

The Senator from Maine [Mr. MUSKIE] said that this measure should go through unanimously just because some Republican under President Eisenhower's administration tried to do the same thing. I am always glad to hear the Senator from Maine endorse what Republicans did; he should follow them more often. I suggest that he will be more constructive if he votes with the Republicans.

But when some Republicans in 1959 sought to follow the same procedure as is being advocated today, he opposed the transaction. I voted against it then. I shall state for the Record how the Senators on the other side of the aisle, including the man who is now in the White House, described this proposal when it was suggested in 1959. I am quoting from the official record. This report was written in connection with a vote on a resolution, No. 177, on August 20, 1959:

Proponents charged that the purpose of the proposed exchange was to achieve a balanced budget by selling off capital assets of the Federal Government. Such a balance, the proponents contended, would be fictitious and fiscally irresponsible.

The Senator from Maine and I endorsed that analysis in 1959. I endorse it today. I do not care whether this unsound practice is proposed by Republicans, Democrats, Independents, or Socialists. When we sell our assets we are liquidating the Federal Government, and when we apply the proceeds to defray daily current expenses it is wrong. I do

not care who advocates the policy; it costs more interest, and it is wrong.

In 1959 a good argument was made by the then majority leader, the man in the White House today, against this unsound procedure. He said that it was an unnecessarily expensive and a deceptive way in which to finance the Federal Government. It was misleading as to the amount of the true deficit. I agree with those arguments. I regret, however, that he changed his mind when he got in the White House.

I yield to the Senator from Ohio.

Mr. LAUSCHE. The issue before Congress in 1959 was substantially identical to the issue before Congress today. A deficit is facing us, and the objective of the administration is to avoid that deficit by selling capital assets.

President Eisenhower made a similar recommendation in order to avoid a deficit in 1959. Is it not a fact that the argument which the Senator from Delaware is making today is substantially the same argument that he made against the Eisenhower proposal in 1959?

Mr. WILLIAMS of Delaware. The Senator is correct. Contrary to what the Senator from Maine said, when the Secretary of the Treasury was before the Committee on Finance I joined with the then senior Senator from Virginia, Mr. Byrd, in condemning this type of program as being fiscally irresponsible.

I said then and repeat now, the American people would not be told the truth as to the deficit under such a program.

I point out that there is this difference in today's proposal and the 1959 resolution which I supported. The 1959 resolution condemned something after it had been done. It was not a resolution to stop such sales.

Only \$335 million was involved in the 1959 transaction. However, the recent request was for \$33 billion, and the request now is for \$11 billion. As I said and agreed to on the other day, a principle is involved. When we sell assets we should not count the proceeds as regular income. If a man who has a \$9,000 a year salary and is spending \$10,000 a year sells a corner of his lot for \$2,000, or sells his car for \$2,000, he cannot then brag about the fact that he has a balanced budget or a \$1,000 surplus. He has neither a balanced budget nor a surplus; he is going broke.

Mr. LAUSCHE. I ask the Senator for a bit of advice. If the Senator from Ohio in 1959 voted against the Eisenhower proposal, could he today vote for the Johnson proposal and still claim that he is consistent and following a sound program?

Mr. WILLIAMS of Delaware. I am glad to note that the Senator from Ohio, who voted against this proposal in 1959, likewise opposed it before the Senate the other day. I am sure that he will join me today and follow a consistent position in opposing it.

My objection goes even further than the extra interest rates. We would be misleading the American people as to the true cost of the Great Society programs. We should tell the American people the truth as to what it is costing to operate this Government.

Much concern has been shown by the administration for high interest charges.

When the present administration took charge of the Government in 1960 the total interest charge on all the national debt was between \$8 billion and \$8.5 billion.

Last year the interest on our national debt cost us approximately \$11.5 billion. In the fiscal year 1966, it is estimated that it will cost \$12 billion.

Next year the interest charge on our national debt is estimated at \$12.75 billion. This is over \$1 billion per month in interest charges alone.

Do not overlook the fact that 93 percent of our \$320 billion debt was created under Democratic administrations. It is costing the American taxpayers over \$10 billion per year to pay the interest on that part of our national debt created under the Democratic administrations alone.

This bill before Congress this afternoon will raise these interest charges by another \$50 million. There has been a 50-percent increase in the past 5 years on interest charges of the national debt.

The members of this Great Society who are always bemoaning high-interest charges should read the record as to what they have done, not for the American people, but to the American people in the last 5 years.

Mr. MUSKIE. Mr. President, may I inquire how much time is remaining?

The PRESIDING OFFICER. The Senator from Maine has 8 minutes remaining, and the Senator from Delaware has 6 minutes remaining.

Mr. MUSKIE. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from Maine is recognized for 2 minutes.

Mr. MUSKIE. Mr. President, in order to make the RECORD clear as to the comparison between the program we are now discussing and the Eisenhower program on direct sales, I think it would be very helpful to those who will be looking at the RECORD to read two statements which I have received from the Treasury Department.

The first statement describes the advantages of participation sales of direct sales of loans. I ask unanimous consent that the statement I have just referred to be printed at this point in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

ADVANTAGES OF PARTICIPATION SALES OVER DIRECT SALES OF LOANS

A question has been raised as to the desirability of selling participations in pools of Federal loans rather than selling the loans outright.

Direct sales of loans are, of course, clearly preferable to sales of participations in these loans, particularly if the loans can be sold outright without recourse to a Federal guarantee and if the investor is willing to take over the servicing of the loan. The fundamental objective in the financing of Federal credit programs should be to encourage the maximum degree of private lender participation consistent with the basic program objectives and sound financial practices.

As shown in table E-4 of Special Analysis E of the budget for the fiscal year 1967 the Administration plans to sell \$534 million of loans held by the Federal Government on a direct sale basis. Table E-4 also shows an estimated total of direct sales for fiscal 1966

or \$672 million, and for fiscal year 1965 the figure was \$814 million.

On the other hand, participation sales, as shown in table E-4, while only \$750 million in 1965, are estimated to total \$2,635 million in fiscal 1966 and \$4,205 million in fiscal 1967.

The reason for the recent growth of participation sales, as compared with direct sales, is that the Government is fast running out of loans which are readily marketable on a direct sales basis. This is true partly because the most marketable loans have already been sold under the program, which has been accelerated in recent years, to substitute private for public credit in the loan programs of the Federal Government. Also, current interest rates are relatively high, compared with the fixed low interest rates established by the Congress in many of these loan programs and the relatively low market interest rates prevailing at the time many of the loans in the Federal portfolio were made. Moreover, in some cases it is necessary or desirable to sell participations, rather than sell loans directly, because the borrowers under these Federal programs are not well-known to investors and do not have established credit ratings. In many cases the underlying collateral, the maturities, or other loan terms and conditions are such that Federal loans are not readily salable to private investors on a direct basis or could be sold on terms more advantageous to the Federal Government if they were placed in pools.

The pooling of loans facilitates the adoption of various financial techniques which provide for greater marketability at less cost to the Government; i.e., through the device of a pool, the investor may be protected by providing excess coverage, authority to substitute assets, and other assurances that he will suffer no financial loss arising from the default of any one or more loans in the underlying pool. The pooling device also provides greater flexibility for the timing and amounts of asset sales and for tailoring the maturities and other terms and conditions of participation certificates in light of current market conditions and overall monetary and fiscal objectives.

Looking at the particular programs which are expected to be included in the fiscal 1967 participation sales program, it is apparent why the participation technique is necessary to facilitate the orderly and most efficient sale of these loans.

Loans made by the Farmers Home Administration are generally made to borrowers in rural areas remote from the major sources of loan funds. These borrowers are individual farmers, rural communities, and other organizations which are not well-known and are remote from investors. Moreover, the interest rates on these loans cannot exceed the statutory maximum of 5 percent and in many cases are much lower. Thus these loans cannot be sold in today's market except at sizeable discounts. Also the maturities of many of these loans are very long, in excess of 30 years, and are thus not salable to shorter-term investors. In fact, the Farmers Home Administration has for years been packaging these long-term loans and selling them to large investors with short-term repurchase agreements, with Farmers Home retaining the servicing of the loans and providing a 100 percent guarantee on the "package." The participation technique is a similar, but more orderly and less costly means of financing many of the Farmers Home loans.

The college housing and public facility loans are not directly salable primarily because of their low interest rates (statutory maximum rate is currently 3 percent) and their long maturities of 40 and 50 years. The participation technique is a means of converting these heavily subsidized and illiquid obligations into highly attractive and flexible market instruments.

Loans made by the Veterans Administration are generally to borrowers in areas

where private loan funds are scarce and the borrower is thus unable to obtain a loan under the VA guarantee program. Also, many of the direct VA loans are made on properties which VA has acquired by reason of defaults on VA guaranteed loans. Thus the VA direct loans are often basically unsalable, except through some such method as the participation technique.

The Small Business Administration loan portfolio contains loans made to marginal small business borrowers who are not yet sufficiently established to secure private lender funds. SBA has sold some of these loans on a direct basis, but its experience has demonstrated that future loan sales could be accomplished more economically through the use of the participation technique. The recent sale by SBA of SBIC debentures, for example, was at an interest rate of 5¼ percent, plus commission, and, although this rate was necessary to market these instruments at the time, the loans could have been sold through the participation technique at a lower interest rate and with no compromise of basic program objectives.

Loans made directly by the Federal Government are for one reason or another unattractive to private lenders—which is why the Federal assistance was required in the first place. Thus the sale of these financial assets held by the Federal Government cannot be accomplished on terms advantageous to the Government, and consistent with basic program objectives, unless these loans are converted into risk-free instruments of ready market acceptability.

The participation instrument must be viewed in the context of other Federal financing techniques designed to encourage private lender participation:

1. It is clearly most desirable to have the private lender originate and service the loan, such as under the major programs of the Federal Housing Administration, and, if possible, assume a portion of the loan risk.

2. In some cases, such as in the college housing program, private lenders may be encouraged to buy the early maturities, with the Federal Government picking up the longer maturities. Also, as in the SBA program, private lenders may sometimes be encouraged to participate with the Federal Government on an immediate or deferred basis.

3. In other programs where private lenders are unwilling to originate or service the loans—which is true of most of the loans made by the Farmers Home Administration, e.g.—the private lender participation generally takes the form of large investors providing the loan capital with the Federal Government guaranteeing the private investor not only against any loss arising from loan default but also against loss of liquidity through the use of loan repurchase agreements.

4. Where it is not possible to obtain private lender participation at the time of loan origination, which is the case with respect to most of the loans under Federal direct loan programs, the loans can sometimes be later converted from a direct to a guaranteed basis as the borrowers become better established. In such cases direct Federal loans have been and will continue to be sold outright, with or without recourse to the Federal guarantee, depending upon market acceptability. In fact, the Participation Sales Act of 1966 provides in section 2(b) authority for Federal agencies to purchase outstanding participations in their loan pools so that these agencies will be able to withdraw loans from the pools and sell them outright if market conditions permit.

Mr. MUSKIE. Mr. President, the second statement makes a comparison of the cost of direct loan sales with participation sales. I ask unanimous con-

sent that this statement be printed at this point in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

COMPARISON OF COSTS OF DIRECT LOAN SALES
WITH PARTICIPATION SALES

Direct sales of loans by FNMA and VA in the fiscal years 1965 and 1966 have been at an average interest rate of about 5¼ percent throughout the period. After adjusting for the cost to the purchaser of servicing the loans—which varies substantially depending upon the amount of each loan but can be estimated as roughly in the range of one-fourth to one-half percent—the net yield to the investor would be in the range from 4¾ to 5 percent. This compares with an average interest yield on FNMA participations of 4.3 percent on the November 1, 1964 issue, 4.5 percent on July 1, 1965, 4.7 percent on December 1, 1965, and 5.4 on April 4, 1966. Since neither FNMA nor VA has been selling significant amounts on a direct basis in the calendar year 1966, there is no basis for a meaningful comparison between the interest rate on direct sales and the April 4, 1966 rate of 5.4 percent on FNMA participations. Thus the net yield to investors of 4¾ to 5 percent on direct sales is roughly comparable with an average yield of about 4½ percent on FNMA's first three participation issues. Accordingly, it would appear that direct sales are more costly than participation sales by an amount ranging from one-fourth to one-half of one percent.

In the Export-Import Bank program the volume of direct sales on a recourse basis in recent years has not been significant relative to the volume of Ex-Im participation sales. Direct sales by Ex-Im on a guaranteed basis in the calendar year 1966 to date, for example, have totaled less than \$4 million, compared with Ex-Im's February participation sale of \$364 million. In the calendar year 1964, however, there were \$24 million of direct sales during the year on a recourse basis, and the weighted average interest rate was 5.18 percent. This compares with the interest rate of 4½ percent on both issues of Ex-Im participations in the calendar year 1964 totaling \$822 million. Thus, although the amount of direct sales in calendar 1964 was only about 3 percent of the volume of participation sales, it is clear that the interest rate on direct sales was significantly above the rate on participations.

SBA direct sales experience provides a reasonable basis for comparison with participation sales because of the sales by SBA in March and April this year of \$110 million of the 302 debentures at interest yields of 5.75 percent and 5.65 percent. The 5.4 percent rate on the FNMA participation issue of April 4, 1966 was significantly below the rates on SBA's 302's.

SBA has also sold some of its regular business loans, but the sales have been sporadic and most of them were sold without recourse and are thus not comparable with participation sales.

On the basis of the above experience it appears that participation certificates can be sold at interest rates roughly one-fourth to one-half percent below the rates which would be required on the direct sale of the loans in the participation pools.

Mr. MUSKIE. Mr. President, I indicated a few moments ago that the program involved in the pending legislation was well established during the Eisenhower years, not simply for the 1959 budget year, but from 1954 on. As a matter of fact, in the fiscal year 1954, there was a sale of something in excess of \$750 million of assets under the Eisenhower programs.

Those were direct sales. The Senator from Delaware has had a great deal to say about the cost of the pending legislation, the direct sale program. It is costly. It involves a greater gap in interest rates between direct Treasury borrowing and direct interest rates than did the former program. The statement which I have had printed in the RECORD will spell out that difference.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. MUSKIE. Our time has expired. We can yield on mutual time and divide the time.

Mr. WILLIAMS of Delaware. In the tabulation which I had placed in the RECORD I did not include direct sales. If I had done so, that would have added another \$672 million in such sales for the fiscal year 1966. That would make approximately \$3 billion extra that has been raised this year in this unorthodox manner.

We should finance the Federal Government in a businesslike manner by selling regular Government securities in a form where they would be available to every American citizen and not through a program that is available only to the banking industry or to friends of the administration.

Mr. MUSKIE. Mr. President, I reserve the remainder of my time.

The PRESIDING OFFICER. Who yields time?

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that there be printed at this point in the RECORD vote No. 177 as it was taken on August 20, 1959, and the analysis of the proponents position on that vote as it appears in the official Register, together with the record of those Senators who voted to support the resolution in 1959.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

Subject: Resolution disapproving exchange of FNMA mortgages for Treasury bonds (S. Res. 130). Vote on passage.

Synopsis: S. Res. 130 expressed the Senate's disapproval of an administration proposal to exchange mortgages held by the Federal National Mortgage Association (FNMA) for Treasury bonds.

The administration had proposed that FNMA finance \$335 million worth of special assistance functions in fiscal year 1960 by exchanging an equivalent amount (\$335 million) of mortgages for Treasury bonds. In this way, the \$335 million in special assistance activity would not unbalance the 1960 budget. The mortgages which the administration proposed to have FNMA exchange were held in FNMA's management and liquidation account, which in 1954 Congress had directed be liquidated whenever this could be done with minimum loss to the Government and minimum effect on the home mortgage market.

S. Res. 130 expressed the sense of the Senate that this exchange should not take place.

Proponents contended:

The proposed exchange would result in loss of revenue from the mortgages which would add up to a total loss, over the years, to \$13.4 million in revenue to the Federal Government. Furthermore, if the full portfolio of mortgages were ultimately liquidated, the total loss would be about \$40 million.

The proposed exchange would also result in lower tax revenues to the extent of \$8.4 million in fiscal year 1960 alone. Furthermore,

if the full portfolio were liquidated the loss would be about \$25 million.

The proposed exchange, proponents maintained, would adversely affect the home mortgage market. Testimony by homebuilders was cited, to the effect that the proposed exchange would soak up funds now available for new housing.

Proponents charged that the purpose of the proposed exchange was to achieve a balanced budget by selling off capital assets of the Federal Government. Such a balance, proponents contended, would be fictitious and fiscally irresponsible.

Proponents charged that private investors would receive an unearned benefit by receiving 4 percent assets in exchange for 2¾ percent assets.

Proponents pointed out that the resolution had been overwhelmingly approved by the Senate Banking and Currency Committee, by a vote of 12 to 3.

Action: the resolution was agreed to.

The result was announced—yeas 56, nays 29, as follows:

YEAS—56

Anderson	Jordan
Bartlett	Kefauver
Bible	Kennedy
Byrd, W. Va.	Kerr
Cannon	Langer
Carroll	Lausche
Case, S. Dak.	Long
Church	Magnuson
Clark	Mansfield
Douglas	McCarthy
Eastland	McGee
Engle	Monroney
Ervin	Morse
Frear	Moss
Fulbright	Muskie
Gore	Neuberger
Green	Pastore
Gruening	Proxmire
Hart	Randolph
Hartke	Robertson
Hayden	Smathers
Hennings	Stennis
Hill	Symington
Holland	Talmadge
Humphrey	Thurmond
Jackson	Williams, Del.
Johnson, Tex.	Williams, N.J.
Johnston, S.C.	Young, Ohio

Mr. MUSKIE. Mr. President, I ask unanimous consent that the quorum call which I am about to suggest not be charged to either side.

The PRESIDING OFFICER. Is there objection? There being no objection, it is so ordered.

Mr. MUSKIE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. MUSKIE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. BARTLETT in the chair). Without objection, it is so ordered.

Mr. MUSKIE. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. MUSKIE. Mr. President, I yield back the remainder of my time.

Mr. WILLIAMS of Delaware. Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER. All time having been yielded back, the question is on the motion to concur in the amendment of the House of Representatives.

On this question, the yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. LONG of Louisiana. I announce that the Senator from Tennessee [Mr. BASS], the Senator from Pennsylvania [Mr. CLARK], the Senator from Tennessee [Mr. GORE], the Senator from Arizona [Mr. HAYDEN], the Senator from New Hampshire [Mr. McINTYRE], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], the Senator from Georgia [Mr. RUSSELL], and the Senator from Maryland [Mr. TYDINGS], are absent on official business.

I also announce that the Senator from Mississippi [Mr. EASTLAND], the Senator from North Carolina [Mr. ERVIN], the Senator from Oklahoma [Mr. HARRIS], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. McCARHY], the Senator from South Dakota [Mr. McGOVERN], the Senator from Connecticut [Mr. RIBICOFF], the Senator from South Carolina [Mr. RUSSELL], and the Senator from Florida [Mr. SMATHERS], are necessarily absent.

On this vote, the Senator from North Carolina [Mr. ERVIN] is paired with the Senator from New Hampshire [Mr. McINTYRE].

If present and voting, the Senator from North Carolina would vote "nay" and the Senator from New Hampshire would vote "yea."

On this vote, the Senator from Tennessee [Mr. GORE] is paired with the Senator from Oklahoma [Mr. HARRIS].

If present and voting, the Senator from Tennessee would vote "nay" and the Senator from Oklahoma would vote "yea."

I further announce that, if present and voting, the Senator from Pennsylvania [Mr. CLARK], the Senator from Mississippi [Mr. EASTLAND], the Senator from Montana [Mr. MANSFIELD], the Senator from South Dakota [Mr. McGOVERN], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], the Senator from Connecticut [Mr. RIBICOFF], the Senator from Georgia [Mr. RUSSELL], the Senator from Florida [Mr. SMATHERS], and the Senator from Maryland [Mr. TYDINGS], would each vote yea.

Mr. KUCHEL. I announce that the Senators from Kentucky [Mr. COOPER and Mr. MORTON], the Senator from Colorado [Mr. DOMINICK], the Senator from Michigan [Mr. GRIFFIN], the Senator from Nebraska [Mr. HRUSKA], the Senator from New York [Mr. JAVITS], the Senator from Idaho [Mr. JORDAN], the Senator from South Dakota [Mr. MUNDT], the Senator from Pennsylvania [Mr. SCOTT], and the Senator from Wyoming [Mr. SIMPSON] are necessarily absent.

The Senator from Illinois [Mr. DIRKSEN] and the Senator from Vermont [Mr. PROUTY] are absent because of illness.

If present and voting, the Senators from Kentucky [Mr. COOPER and Mr. MORTON], the Senator from Illinois [Mr. DIRKSEN], the Senator from Colorado [Mr. DOMINICK], the Senator from South Dakota [Mr. MUNDT], and the

Senator from Wyoming [Mr. SIMPSON] would each vote "nay."

On this vote, the Senator from Nebraska [Mr. HRUSKA] is paired with the Senator from Pennsylvania [Mr. SCOTT]. If present and voting, the Senator from Nebraska would vote "nay" and the Senator from Pennsylvania would vote "yea."

On this vote, the Senator from Idaho [Mr. JORDAN] is paired with the Senator from New York [Mr. JAVITS]. If present and voting, the Senator from Idaho would vote "nay" and the Senator from New York would vote "yea."

The result was announced—yeas 50, nays 20, as follows:

[No. 78 Leg.]

YEAS—50

Aiken	Hartke	Morse
Anderson	Hill	Moss
Bartlett	Holland	Muskie
Bayh	Inouye	Nelson
Bible	Jackson	Neuberger
Brewster	Jordan, N.C.	Proxmire
Byrd, Va.	Kennedy, Mass.	Randolph
Byrd, W. Va.	Kennedy, N.Y.	Robertson
Cannon	Long, Mo.	Smith
Case	Long, La.	Sparkman
Church	Magnuson	Stennis
Dodd	McClellan	Symington
Douglas	McGee	Talmadge
Ellender	Metcalf	Williams, N.J.
Fulbright	Mondale	Yarborough
Gruening	Monroney	Young, Ohio
Hart	Montoya	

NAYS—20

Allott	Fannin	Pearson
Bennett	Fong	Saltonstall
Boggs	Hickenlooper	Thurmond
Burdick	Kuchel	Tower
Carlson	Lausche	Williams, Del.
Cotton	Miller	Young, N. Dak.
Curtis	Murphy	

NOT VOTING—30

Bass	Hayden	Pastore
Clark	Hruska	Pell
Cooper	Javits	Prout
Dirksen	Jordan, Idaho	Ribicoff
Dominick	Mansfield	Russell, S.C.
Eastland	McCarthy	Russell, Ga.
Ervin	McGovern	Scott
Gore	McIntyre	Simpson
Griffin	Morton	Smathers
Harris	Mundt	Tydings

So the motion to concur in the House amendment was agreed to.

Mr. LONG of Louisiana. Mr. President, I move to reconsider the vote by which the motion was agreed to.

Mr. MUSKIE. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

TREASURY, POST OFFICE, AND EXECUTIVE OFFICE APPROPRIATIONS, 1967

Mr. ROBERTSON. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of H.R. 14266.

The PRESIDING OFFICER. The bill will be stated by title for the information of the Senate.

The LEGISLATIVE CLERK. A bill (H.R. 14266) making appropriations for the Treasury and Post Office Departments, the Executive Office of the President, and certain independent agencies, for the fiscal year ending June 30, 1967, and for other purposes.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Virginia?

There being no objection, the Senate

proceeded to consider the bill, which had been reported from the Committee on Appropriations, with amendments.

Mr. ROBERTSON. Mr. President, I ask unanimous consent that the committee amendments to the pending bill be considered and agreed to en bloc, and that the bill as thus amended be regarded for the purpose of amendment as original text, provided that no point of order shall be considered to have been waived by reason of agreement to the order.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

The amendments, agreed to en bloc, are as follows:

On page 8, line 13, after the word "Commissioner", to strike out "\$460,000,000" and insert "\$462,100,000".

On page 10, line 22, after "(5 U.S.C. 55a)", to strike out "\$12,000,000" and insert "\$16,152,000".

On page 11, line 10, after the word "law", to strike out "\$4,710,000,000" and insert "\$4,723,370,000", and, in the same line, after the word "Provided", to insert "That not to exceed 5 per centum of any appropriation available to the Post Office Department for the current fiscal year may be transferred, with the approval of the Bureau of the Budget, to any other such appropriation or appropriations; but the appropriation 'Administration and regional operation' shall not be increased by more than \$1,000,000 as a result of such transfers: *Provided further*,".

On page 12, line 25, after the word "plans", to strike out "\$158,000,000" and insert "\$138,000,000".

On page 17, after line 12, to insert:

"ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

"Salaries and expenses

"For necessary expenses of the Administrative Conference of the United States, established by the Administrative Conference Act (78 Stat. 615), \$250,000."

Mr. ROBERTSON. Mr. President, the Committee on Appropriations has authorized me to present to the Senate its report on the pending bill, H.R. 14266, making appropriations for the Treasury and Post Office Departments, Executive Office of the President, and certain independent agencies for fiscal year 1967.

Senators will find on their desks printed copies of the committee report, and I will now present to the Senate a brief summary of what is in the bill. The agencies covered by this bill have the responsibility of administering a total of \$20.1 billion, of which more than \$12.9 billion is for definite and indefinite permanent appropriations which are not included in the pending bill. The 1967 estimates in this category total \$12,912,399,000. Of this amount, \$12,750 billion is for interest on the public debt, an increase of \$750 million over the 1966 estimate.

The bill which is recommended to the Senate provides total appropriations of \$7,210,049,135. This amount is a decrease of \$128,000 under the House allowance, \$197,475,135 over the appropriations for 1966, but \$36,670,865 under the estimates for 1967.

TITLE I—TREASURY DEPARTMENT

Appropriations totaling \$1,374,099,000 are recommended in the accompanying bill for the regular annual requirements of the Treasury Department for fiscal year 1967. This is a decrease of \$12.1



An Act

80 STAT. 164

To promote private financing of credit needs and to provide for an efficient and orderly method of liquidating financial assets held by Federal credit agencies, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Participation Sales Act of 1966".

SEC. 2. (a) Section 302(c) of the Federal National Mortgage Association Charter Act is amended—

Participation
Sales Act of
1966.

78 Stat. 800.
12 USC 1717.

(1) by inserting "(1)" immediately following "(c)";

(2) by inserting after "undertakings and activities" a comma and "hereinafter in this subsection called 'trusts'";

(3) by striking "obligations offered to it by the Housing and Home Finance Agency or its Administrator, or by such Agency's constituent units or agencies or the heads thereof, or any first mortgages in which the United States or any agency or instrumentality thereof" in the first sentence thereof and inserting "mortgages or other types of obligations in which any department or agency of the United States listed in paragraph (2) of this subsection";

(4) by striking out the third sentence thereof and substituting therefor the following: "Participations or other instruments issued by the Association pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission."; and

(5) by striking out the fourth sentence thereof.

(b) Section 302(c) of such Act is further amended by adding the following:

"(2) Subject to the limitations provided in paragraph (4) of this subsection, one or more trusts may be established as provided in this subsection by each of the following departments or agencies:

Establishment
of trusts.

"(A) The Farmers Home Administration of the Department of Agriculture, but only with respect to operating loans, direct farm ownership loans, direct housing loans, and direct soil and water loans. Such trusts may not be established with respect to loans for housing for the elderly under sections 502 and 515(a) of the Housing Act of 1949, nor with respect to loans for nonfarm recreational development.

63 Stat. 433;
76 Stat. 671.
42 USC 1472,
1485.

"(B) The Office of Education of the Department of Health, Education, and Welfare, but only with respect to loans for construction of academic facilities.

"(C) The Department of Housing and Urban Development, except that such authority may not be used with respect to secondary market operations of the Federal National Mortgage Association.

“(D) The Veterans' Administration.

“(E) The Export-Import Bank.

“(F) The Small Business Administration.

The head of each such department or agency, hereinafter in this subsection called the ‘trustor’, is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The Association shall be named and shall act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the Association in trust. The trust instrument shall provide that custody, control, and administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations. Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale with recourse of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the Federal National Mortgage Association as trustee pursuant to the trust instrument.

“(3) When any trustor guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty.

“(4) Beneficial interests or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year.

“(5) The Association, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). There are authorized to be appropriated without fiscal year limitation such sums as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations

authorized to be issued pursuant to paragraph (4) of this subsection. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument."

SEC. 3. (a) Section 305(c) of the Federal National Mortgage Association Charter Act is amended by deleting "by \$450,000,000 on July 1, 1966,"

75 Stat. 175;
79 Stat. 493.
12 USC 1720.
73 Stat. 681;
79 Stat. 489.
12 USC 1749.

(b) Section 401(d) of the Housing Act of 1950 is amended by deleting "1968:" immediately preceding the first proviso and by substituting therefor "1965, and 1967 and 1968:".

SEC. 4. (a) Section 303(c) of title III of the Higher Education Facilities Act of 1963 is amended by striking out the first nine words in the second sentence and substituting therefor the following: "For the purpose of making payments into the fund established under section 305".

77 Stat. 372.
20 USC 743.

(b) Title III of the Higher Education Facilities Act of 1963 is further amended by adding after section 304 the following new section:

"REVOLVING LOAN FUND

"SEC. 305. (a) There is hereby created within the Treasury a separate fund for higher education academic facilities loans (hereafter in this section called 'the fund') which shall be available to the Commissioner without fiscal year limitation as a revolving fund for the purposes of this title. The total of any loans made from the fund in any fiscal year shall not exceed limitations specified in appropriation Acts. A business-type budget for the fund shall be prepared, transmitted to the Congress, considered, and enacted in the manner prescribed by law (sections 102, 103, and 104 of the Government Corporation Control Act (31 U.S.C. 847-849) for wholly owned Government corporations.

59 Stat. 598.

"(b) (1) The Commissioner, when authorized by an appropriation Act, may transfer to the fund available appropriations provided under section 303(c) to provide capital for the fund. All amounts received by the Commissioner as interest payments or repayments of principal on loans, and any other moneys, property, or assets derived by him from his operations in connection with this title, including any moneys derived directly or indirectly from the sale of assets, or beneficial interests or participations in assets, of the fund, shall be deposited in the fund.

"(2) All loans, expenses, and payments pursuant to operations of the Commissioner under this title shall be paid from the fund, including (but not limited to) expenses and payments of the Commissioner in connection with sale, under section 302(c) of the Federal National Mortgage Association Charter Act, of participations in obligations acquired under this title. From time to time, and at least at the close of each fiscal year, the Commissioner shall pay from the fund into the Treasury as miscellaneous receipts interest on the cumulative amount of appropriations paid out for loans under this title or available as capital to the fund, less the average undisbursed cash balance in the fund during the year. The rate of such interest shall be determined by the Secretary of the Treasury, taking into consideration the average market yield during the month preceding each fiscal year on outstanding Treasury obligations of maturity comparable to the average maturity of loans made from the fund. Interest payments may be deferred with the approval of the Secretary of the Treasury, but any

Ante, p. 164.

80 STAT. 167

interest payments so deferred shall themselves bear interest. If at any time the Commissioner determines that moneys in the fund exceed the present and any reasonably prospective future requirements of the fund, such excess may be transferred to the general fund of the Treasury."

75 Stat. 317.
7 USC 1988.
70 Stat. 1090.

SEC. 5. Section 338(c) of the Consolidated Farmers Home Administration Act of 1961 is amended by striking in the second sentence "and (8)" and inserting in lieu thereof "(8) section 8 of the Watershed Protection and Flood Prevention Act, as amended (16 U.S.C. 1006a); (9) section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended (7 U.S.C. 1011); and (10)"; and by inserting in the fifth sentence after "title," the following: "section 8 of the Watershed Protection and Flood Prevention Act, as amended, and section 32(e) of the Bankhead-Jones Farm Tenant Act, as amended,".

76 Stat. 607.

SEC. 6. (a) Nothing in this Act shall be construed to repeal or modify the provisions of section 1820(e) of title 38, United States Code, respecting the authority of the Administrator of Veterans' Affairs.

78 Stat. 800.

(b) After June 30, 1966, no department or agency listed in section 302(c)(2) of the Federal National Mortgage Association Charter Act may sell any obligation held by it except as provided in section 302(c) of that Act, or as approved by the Secretary of the Treasury, except that this prohibition shall not apply to secondary market operations carried on by the Federal National Mortgage Association.

Ante, p. 164.

SEC. 7. Paragraph (7) of section 8 of the Federal Credit Union Act (12 U.S.C. 1757) is amended to read:

73 Stat. 630.

"(7) to invest its funds (A) in loans exclusively to members; (B) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (C) in accordance with rules and regulations prescribed by the Director, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (D) in shares or accounts of savings and loan associations, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation; (E) in obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit banks, Federal home loan banks, the Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as a wholly owned Government corporation; or in obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or (F) in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more Government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee;"

Reports to Congress.

SEC. 8. The Secretary of the Treasury, in consultation with heads of agencies of the United States carrying on direct loan programs, shall conduct a study, in such manner as he shall determine, on the feasibility, advantages, and disadvantages of direct loan programs compared to guaranteed or insured loan programs and shall report his findings together with specific legislative proposals to the Congress not later than six months after the effective date of this Act. There are authorized to be appropriated such sums as necessary for the purpose of this section.

Appropriation.

May 24, 1966

- 5 -

Pub. Law 89-429

80 STAT. 168

Sec. 9. The Federal National Mortgage Association is authorized during the fiscal year 1966 to sell—

(1) additional participations in the Government Mortgage Liquidation Trust, and

(2) participations in a trust to be established by the Small Business Administration,

each without regard to the provisions of paragraph (4) of section 302(c) of the Federal National Mortgage Association Charter Act.

Ante, p. 165.

Approved May 24, 1966.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 1448 accompanying H. R. 14544 (Comm. on Banking & Currency).

SENATE REPORT No. 1140 (Comm. on Banking & Currency).

CONGRESSIONAL RECORD, Vol. 112 (1966):

May 3: Considered in Senate.

May 5: Considered and passed Senate.

May 16, 17: H. R. 14544 considered in House.

May 18: Considered and passed House, amended, in lieu of H. R. 14544.

May 19: Senate considered motion to concur in House amendment.

May 23: Senate concurred in House amendment.

